MMI Holdings integrated report 2014

MMI HOLDINGS

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CONTENTS

OUR APPROACH TO INTEGRATED REPORTING

IN THIS REPORT, WE INTRODUCE THE MMI NEW OPERATING MODEL THAT ORGANISES BUSINESS ACTIVITIES AROUND OUR CLIENTS.

SCOPE AND BOUNDARY

Our 2014 integrated report covers the activities of the MMI Holdings Ltd group (MMI) and includes an assessment of its financial and non-financial performance for the 12 months from 1 July 2013 to 30 June 2014, based on the operating model during this reporting period.

The divisional reviews should be read in the context of the operating model for the above reporting period.

NEW OPERATING MODEL

In this report, we introduce the MMI new operating model that organises business activities around our clients. Our new operating model, which is being phased in from 1 July 2014, separates all the group's activities into four *segment businesses* and a *products and solutions business*, supported by *group-wide functions*. See pages 9 and 10 for more detail.

FINANCIAL STATEMENTS

The financial statements for the financial year ended 30 June 2014 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, as amended and the Short-term Insurance Act, 53 of 1998. They are also in compliance with International Financial Reporting Standards (IFRS); the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Pronouncements as issued by the Financial Reporting Standards Council; guidelines issued by the Actuarial Society of South Africa; and the Listings Requirements of the JSE Ltd (JSE). The accounting policies have been applied consistently to all the periods presented (except where annotated otherwise).

Non-financial information has been prepared taking into account the guidelines of the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI), as well as the recommendations of the King Report on Governance for South Africa 2009 (King III). More information in this regard is available on the MMI website **www.mmiholdings.com**.

ASSURANCE

The non-financial content of this report was prepared by management and endorsed by the board. External assurance has been limited to our broad-based black economic empowerment scorecard, verified by accredited ratings agency NERA (please see page 16 for more detail), and our carbon footprint, verified by Global Carbon Exchange. Both certificates are published on our website at **www.mmiholdings.com**.

Our independent auditors, PricewaterhouseCoopers, have provided external assurance in respect of the group annual financial statements and reviewed the group embedded value report (refer to their reports on pages 76 and 80 respectively).

APPROVAL

The board acknowledges its responsibility for ensuring the integrity, objectivity, reliability and transparency of the integrated report. The directors confirm that they have assessed the content and believe it addresses all the material matters and fairly presents the overall performance of the group.

The board declares that the integrated report contains disclosure in line with the recommendations of King III and the IIRC guidelines and has therefore authorised its release.

The Audit Committee of the board has also evaluated the integrated report, prepared from information provided by management. The Audit Committee considers the group annual financial statements compliant, in all material respects, with the required legislation and standards.

NICOLAAS KRUGER
GROUP CHIEF EXECUTIVE OFFICER

JJ NJEKE
CHAIRMAN

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS INTEGRATED REPORT MAY BE DEFINED AS FORWARD-LOOKING WITHIN THE MEANING OF THE UNITED STATES SECURITIES LEGISLATION.

Certain statements in this integrated report may be defined as forward-looking within the meaning of the United States Securities legislation.

Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could result in the actual results, performance or achievements of the group being materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements may be identified by words such as *expect, believe, anticipate, plan, estimate, intend, project, target, predict, outlook*, and words of similar meaning.

Forward-looking statements are not statements of fact but statements by the management of MMI based on current estimates, projections, beliefs, assumptions and expectations regarding the group's future performance.

No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

The risks and uncertainties inherent in the forward-looking statements contained in the report include, but are not limited to: domestic and international business and market conditions; changes in the domestic or international regulatory and legislative environment in the countries in which the group operates or intends to operate; changes to domestic and international operational, economic, political and social risks; changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; and the effects of both current and future litigation.

The group does not undertake to update publicly or release any revisions to these forward-looking statements contained in the report and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance of any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.

MMI ONLINE

All information contained in our integrated report is published on our website at **www.mmiholdings.com**.

Sustainability information is available in the sustainability section of the MMI website **www.mmiholdings.com**. You can also find information on our share price performance and other economic data in the investor relations section.

REPORTING ELEMENTS AND TOOLS

The following reporting tools will help you better navigate through this report

Cross-reference between sections

View relevant information digitally on PC, tablet or smartphone

Our registered office is situated at 268 West Avenue, Centurion, South Africa
Tel +27 12 671 8911

www.mmiholdings.com

PERFORMANCE HIGHLIGHTS

+27%
Diluted headline earnings **R3 245m**

+12%
Diluted core headline earnings **R3 621m**

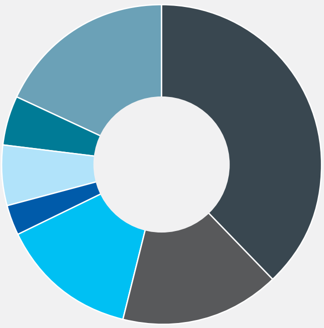
+14%
Value of new business **R779m**

+19%
Return on embedded value **2 474cps**

+12%
Total dividend per share **142cps**

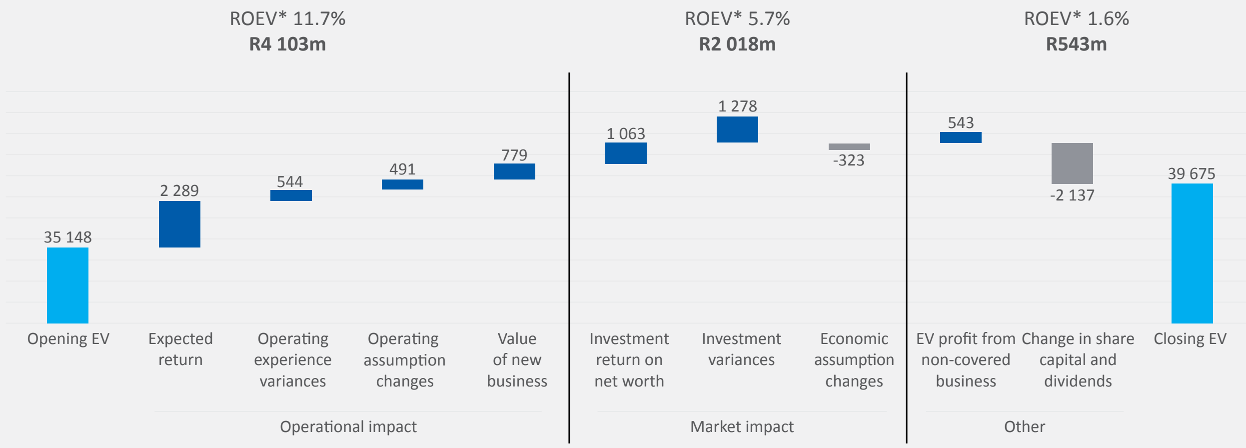
DILUTED CORE HEADLINE EARNINGS

30 JUNE 2014



		June 2014 Rm	Restated June 2013 Rm	Change
38%	Momentum Retail	**1 372**	1 158	18%
16%	Metropolitan Retail	**587**	509	15%
14%	Momentum Employee Benefits	**516**	341	51%
3%	Metropolitan International	**122**	108	13%
6%	Momentum Investments	**197**	175	13%
5%	Metropolitan Health	**171**	140	22%
	Operating divisions	**2 965**	2 431	22%
18%	Shareholder capital	**656**	810	(19%)
	Total	**3 621**	3 241	12%

EMBEDDED VALUE (EV) ANALYSIS (Rm)



* Return on embedded value

Introduction

At a glance

Shareholder reports

Divisional reviews

Financial statements

CAPITAL STRENGTH

Economic capital	Rbn
Net asset value as per embedded value statement	**17.0**
Qualifying debt	**3.0**
Less: net asset value of strategic subsidiaries	**(2.1)**
Less: required capital	**(10.1)**
Capital buffer before deployment	**7.8**
Deployed	**(4.6)**
Final dividend	**(1.4)**
Special dividend	**(0.8)**
Debt redemption	**(0.5)**
Strategic growth initiatives	**(1.9)**
Capital buffer after deployment	**3.2**

MMI AND THE JSE

	2014	2013	
Listed ordinary shares	**1.6**	1.6	bn
Preference shares	**34**	34	m
Total shares in issue	**1.6**	1.6	bn
Share price at year-end	**2 625**	2 217	cents
Fully diluted headline earnings per share	**204.0**	160.2	cps
Market capitalisation at year-end	**42**	36	bn

GUARDRISK

MMI Holdings acquired the Guardrisk business in March 2014. This acquisition reflects MMI's strategic intent to diversify its business in South Africa and selected international markets, with a primary focus on Africa. Guardrisk brings with it a comprehensive suite of alternative risk transfer solutions, along with a considerable degree of intellectual capital in this arena and strong client relationships in the corporate sector.

Having operated according to a client-centric business model for many years, Guardrisk's ethos dovetails perfectly with the client-centric model which will be adopted by MMI, on a phased-in basis, from July 2014. MMI will align Guardrisk's expertise and product development skills to enhance the client value proposition especially within its corporate and public sector segment.

Several synergies have been earmarked to be unlocked between Guardrisk and other MMI divisions which are expected to deliver healthy growth to MMI.

TRANSFORMATION

Level
2
B-BBEE
status

MMI has a level 2 broad-based black economic empowerment (B-BBEE) contributor status

THREE-YEAR FINANCIAL REVIEW

	June 2014 Rm	Restated June 2013 Rm	June 2012[1] Rm
Net insurance premiums	**56 242**	56 739	45 552
Momentum Retail	**22 517**	18 575	17 148
Metropolitan Retail	**6 820**	6 246	6 042
Momentum Employee Benefits	**17 343**	12 228	9 712
Metropolitan International	**2 898**	2 535	1 960
Momentum Investments	**6 262**	16 819	10 661
Metropolitan Health	**47**	37	29
Shareholder Capital	**355**	299	–
New business premiums (Present value of premiums)	**42 163**	35 725	32 357
Momentum Retail	**20 434**	17 421	16 384
Metropolitan Retail	**5 372**	5 042	5 220[2]
Momentum Employee Benefits	**14 491**	11 627	9 421
Metropolitan International	**1 866**	1 635	1 332
Value of new business	**779**	681	536
Momentum Retail	**240**	203	173
Metropolitan Retail	**236**	209	199[2]
Momentum Employee Benefits	**254**	213	130
Metropolitan International	**49**	56	34
Diluted core headline earnings	**3 621**	3 241	2 955
Momentum Retail	**1 372**	1 158	1 064
Metropolitan Retail	**587**	509	438
Momentum Employee Benefits	**516**	341	249
Metropolitan International	**122**	108	57
Momentum Investments	**197**	175	125
Metropolitan Health	**171**	140	133
Shareholder Capital	**656**	810	889
Earnings attributable to owners of the parent (Rm)	**3 197**	2 587	2 301
Dividend per share (cents)	**142**	127	113
Special dividend per share (cents)	**50**	–	65
Diluted embedded value (Rm)	**39 675**	35 148	32 472
Return on embedded value (%) (annualised) – internal rate of return	**19.0%**	17.4%	11.3%
Price/diluted core headline earnings (segmental) ratio	**11.6**	11.0	9.8
Dividend yield % (dividend on listed shares)	**5.4%**	5.7%	6.3%
Last sale of period (cents per share)	**2 625**	2 217	1 800

[1] As reported
[2] Adjusted for FNB Life

ABOUT MMI

OUR BUSINESS

MMI is one of the largest insurance-based financial services groups listed on the South African stock exchange, the JSE, with an embedded value of R39 675 million, and a market capitalisation of R42 billion (as at 30 June 2014).

Created in December 2010 from the merger of Metropolitan Holdings and the Momentum Group, MMI conducts business in South Africa, in 12 African countries outside South Africa, as well as selected international countries.

MMI's core businesses are long and short-term insurance, asset management, savings, investment, healthcare administration, health risk management, employee benefits, property management and rewards programmes. These product and service solutions are provided to all market segments through our main client-facing operating brands, Metropolitan, Momentum, Guardrisk and Eris.

MMI HOLDINGS

OUR STRATEGY

In the last three years, MMI has successfully bedded down the merger and the benefits are being demonstrated in MMI's strong results and the value it is creating for all stakeholders. To effectively compete and grow into the future, we reviewed our strategy to take account of developments in the environment and our industry, concluding that we should position MMI much closer to its clients through the implementation of a client-centric strategy. Our new vision, purpose, strategic focus areas and values all support value creation through the client-centric operating model.

OUR VISION

Where we are headed

To be the ***preferred lifetime financial wellness partner***, with a reputation for innovation and trustworthiness.

OUR PURPOSE

Why we exist

To ***enhance the lifetime financial wellness*** of people, their communities and their businesses.

OUR STRATEGIC FOCUS AREAS

The way we will compete

Growth	*Client-centricity*	*Excellence*

OUR VALUES

What we stand for

A culture that is grounded in the values of ***accountability, excellence, integrity, diversity, innovation and teamwork.***

STRATEGIC FOCUS AREAS

MMI's growth initiatives support our Vision, Purpose and Strategic focus areas of

1. GROWTH
2. CLIENT-CENTRICITY
3. EXCELLENCE

1. GROWTH

In terms of our growth strategic focus area, MMI is pursuing a number of diversification initiatives.

Product diversification by enhancing the capacity, growth potential and profitability of our short-term insurance businesses, Guardrisk and Momentum Short-term Insurance (MSTI).

Geographical diversification by expanding our operations in Africa through appropriate acquisitions and organic growth in respect of additional product lines and more effective distribution, as well as investigating the growth potential of India and Southeast Asia.

Segment diversification by increasing our share of the middle-income market segment in South Africa.

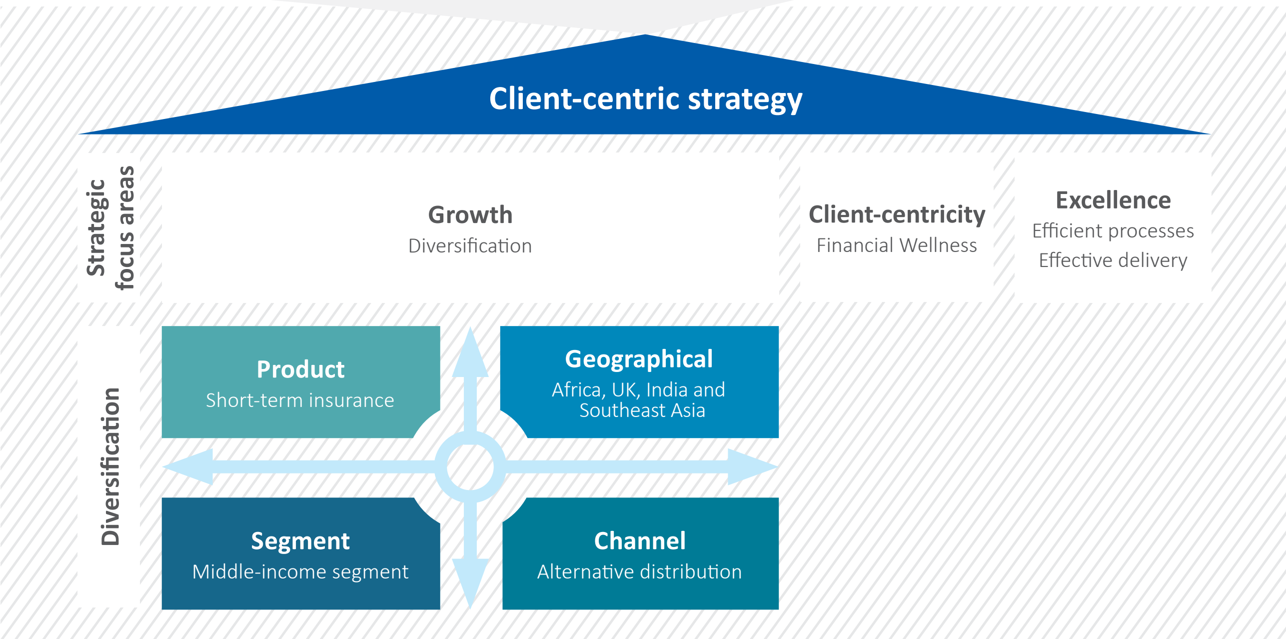
Channel diversification through our focus on alternative distribution channels that meet the changing needs of our clients more accurately.

2. CLIENT-CENTRICITY

One of the main growth initiatives supporting MMI's client-centricity strategic focus area is our Financial Wellness solution. To understand the needs of MMI's clients and the market at large, Momentum has partnered with Unisa to develop the Momentum Unisa Household Financial Wellness Index, which provides a meaningful overview of financial wellness of South African households. In addition, we have developed our Financial Wellness tools, which are broadly available, and make it possible for our clients to better understand their own financial wellness, as well as the solutions they require to improve their financial wellness. It also enhances our understanding of the needs of our clients and enables us to present a wider range of products to them tailored to their particular requirements.

3. EXCELLENCE

The main thrust of our excellence strategic focus area is improving processes to be more efficient and ensuring a consistently excellent client experience. The cornerstone of this is our work in instilling a culture and mindset of excellence across all aspects of the business.



OPERATING MODEL FOR THE PERIOD 1 JULY 2013 – 30 JUNE 2014

MMI HOLDINGS BOARD

CHIEF EXECUTIVE OFFICER

1. Momentum Retail
2. Metropolitan Retail
3. Momentum Employee Benefits
4. Metropolitan International
5. Momentum Investments
6. Metropolitan Health

Balance sheet management

Corporate affairs

Chief integration and operations officer

Strategic human resources

Group finance

Risk management

This report is based on the operating model that was in place from 1 July 2013 to 30 June 2014, comprising a structure with six full value chain divisions and supporting group-wide functions (see diagram above). In support of MMI's strategic focus on client-centricity, a new client-centric operating model will be rolled out over the next three years, from 1 July 2014 (see diagram below).

NEW OPERATING MODEL

The new operating model enables MMI to deliver solutions based on client insights and market trends. This operating model moves away from product-driven silo businesses and organises business activities around our clients. During the past financial year, a significant amount of work and deliberation took place between senior management and leading international consultants to formulate a suitable client-centric operating model for the MMI group. During February 2014, the MMI board approved the new client-centric operating model and structure to be implemented across all MMI divisions from July 2014. The new model separates all the group's activities into **segment** businesses and a **products and solutions** business, supported by **group-wide functions**.

1. **SEGMENT CAPABILITIES** that focus on understanding and fulfilling the financial wellness needs of specific client segments by designing targeted solutions.

2. **CHANNEL CAPABILITIES** that focus on all client interaction, including sales and services, using a wide range of appropriate channels.

3. **PRODUCTS AND SOLUTIONS** business that focus on creating products and solutions that meet our clients' financial wellness needs, which are identified by the segment businesses.

In the same way that MMI's operating model must support its strategy, it needs an operating structure that enables optimal execution of the operating model. To achieve this, the group will be implementing an operating structure that comprises four **segment businesses** and **one products and solutions business**, supported by **group-wide functions**.

OUR FOUR SEGMENTS

1

MOMENTUM RETAIL focuses on understanding and meeting the financial wellness needs of consumers in the South African middle to upper-income segments, as well as their associated businesses. In addition, it is responsible for all interaction with clients in these segments, using the distribution and service channels relevant to middle to upper-income clients. MMI's dedicated middle-income growth initiative remains in this business.

2

METROPOLITAN RETAIL focuses on understanding and meeting the financial wellness needs of consumers in South Africa's lower to middle-income segments. The business is also responsible for client interaction and therefore manages the distribution channels and client service capabilities relevant to clients' needs.

3

CORPORATE AND PUBLIC SECTOR concentrates on understanding and meeting the financial wellness needs of medium to large group clients in the corporate and public sector segments. Based on the client or sub-segment served, the value propositions from this segment will be marketed by using the Momentum, Metropolitan, Guardrisk or Eris brands.

4

The **INTERNATIONAL** business makes it possible to develop a holistic view of MMI's international portfolio and manage the group's global expansion accordingly. International includes emerging countries, African countries outside South Africa and further afield. The business is responsible for identifying and meeting clients' financial wellness needs, as well as for interacting with clients in the multiple segments of the countries where we are represented (and will be represented in future). This will be done through multiple distribution channels and using the client-facing brand(s) appropriate to the country or region.

NEW OPERATING STRUCTURE

MMI HOLDINGS BOARD

CHIEF EXECUTIVE OFFICER

Segment businesses
Momentum Retail
Metropolitan Retail
Corporate and Public Sector
International

Products and solutions business
Centres of excellence

Group-wide functions

1. Group finance
2. Risk management
3. Brand and corporate affairs
4. Balance sheet management
5. Strategic HR and transformation
6. Chief operating officer

KEY PERFORMANCE INDICATORS

MMI assesses its operational performance against a set of key performance indicators that are approved and annually reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives. Specific targets have been set for each division and subsidiary.

SHORT-TERM PERFORMANCE INDICATORS – BALANCED SCORECARD

Short-term deliverables are measured over a period of 12 months and are reviewed on an annual basis. For the financial year ended 30 June 2014, the following set of short-term deliverables applied to the group as a whole:

METRIC	Weight F2013	**Weight F2014**	Weight F2015
Return on embedded value	–	**20%**	20%
Core earnings	30%	**25%**	25%
Value of new business	20%	**20%**	20%
Integration expenses savings	15%	**–**	–
Transformation (FSC scorecard)	15%	**15%**	15%
Strategic projects	20%	**20%**	20%
Total	**100%**	**100%**	**100%**

LONGER-TERM PERFORMANCE INDICATORS – RETURN ON EMBEDDED VALUE (ROEV)

As an indicator of financial performance over the medium to longer term, the group's return on embedded value is measured on an annual basis, but averaged over a rolling three-year period. The targeted rate of return has been set at 300 basis points in excess of the annual growth in South Africa's nominal gross domestic product (GDP). The target is reviewed on an annual basis.

INVESTMENT CASE

1

BROAD-BASED AND DIVERSIFIED SCALE BUSINESS

MMI's overarching strategy is to meet the financial wellness needs in South Africa, the rest of Africa, and selected international countries.

INVESTMENT CASE *CONTINUED*

2

SOUND FINANCIAL POSITION

- Net asset value per the embedded value statement **R17.0bn**
- Capital buffer before deployment **R7.8bn**
- Capital buffer after deployment **R3.2bn**
- Dividend yield of **5.4%** (based on share price at year-end)
- Special dividend paid **50cps**

3

CREDIT RATING

The group's credit rating was upgraded to:

IFS AA+ (zaf)/stable

Sub-debt A+ (zaf)

4

CAPABLE RESOURCES

MMI has a diversified skills base, with an experienced executive team. In addition, the group's strategy and operations are supported by the board of directors' wide range of skills and expertise.

5

POSITIONED FOR SUSTAINABLE GROWTH

- Excluding South Africa, one of the group's great strengths is its extensive African footprint, with operations in 12 African countries, and selected international ones.
- The diversified nature of the group's product offering covers the entire spectrum of the market in which we operate and supports our client-centric model.

6

SCALE

For the year ended 30 June 2014:

- Diluted core headline earnings: **R3 621m**
- Assets under management: **R395bn**
- Value of new business: **R779m**
- Total embedded value: **R39 675m**
- Employees: **16 692**
- Countries: South Africa, 12 African countries and selected international ones

7

BALANCE SHEET MANAGEMENT

The group has a dedicated function that concerns itself with the protection and enhancement of MMI's shareholder balance sheet.

8

GOVERNANCE

The group is committed to the highest standards of corporate governance as evidenced by its ongoing efforts to comply with the principles of King III, including the composition of its board. Board deliberations are enriched by the diversity of skills and experience of its members. For detailed information on the group's governance practices, please see our corporate governance report on page 45.

9

RESPECTED AND WELL-LIKED BRANDS

MMI is purely an investor brand with three established insurance brands – Metropolitan, Momentum, and Guardrisk. Eris is responsible for managing the group's property portfolio.

METROPOLITAN

High-volume/low-cost operating model, with a strong presence and capabilities in the low to middle-income markets

www.metropolitan.co.za

momentum

Targets middle to upper-income market

www.momentum.co.za

GUARDRISK

Leading specialist cell captive insurance group providing tailor-made risk financing and insurance solutions

www.guardrisk.co.za

ERIS PROPERTY GROUP

Commercial property service expertise ranging from property development to asset management

www.eris.co.za

10

SHAREHOLDER STRUCTURE

GEPF	Foreign shareholders	Other local shareholders	RMI	FirstRand trusts	KTH
10.4%	26.4%	27.0%	24.5%	4.6%	7.1%

BEE shareholders 15.4% (FirstRand trusts and KTH)

AWARDS AND RECOGNITION

MOMENTUM RETAIL

Hamlet Foundation Outstanding Achievement Award for work done with people with intellectual disabilities

Hamlet Foundation Outstanding Achievement Award

METROPOLITAN RETAIL

Second position in the *Sunday Times* Top Brands for the long-term insurance industry category

No 2
***Sunday Times* Top Brands**

MOMENTUM EMPLOYEE BENEFITS

- PMR golden arrow for group life/risk products
- PMR golden arrow for group pension and provident funds
- PMR golden arrow for investment products

PMR Golden Arrow Award

METROPOLITAN INTERNATIONAL

- Metropolitan Zambia: Wanthanzi Health Plan was awarded the PMR Golden Arrow award for doing the most in the sector to stimulate economic growth and development in Zambia
- Metropolitan Namibia received the PMR Silver Arrow award for its contributions towards economic growth and development in Namibia

MOMENTUM MEDICAL SCHEME

- PMR Golden Arrow award for healthcare administration
- Second position in the *Sunday Times* Top Brands for the medical aid category

PMR Golden Arrow Award

MOMENTUM SHORT-TERM INSURANCE

- Voted the Best Small Car Insurance Company in the country for 2013, by carinfo.co.za
- Momentum Short-term Insurance achieved the lowest overturn rate (10% vs. industry average of 33%) of complaints logged with the Ombudsman for Short-term Insurance during 2013

RISK MANAGEMENT

MMI'S RISK PHILOSOPHY RECOGNISES THAT MANAGING RISK IS AN INTEGRAL PART OF GENERATING SUSTAINABLE SHAREHOLDER VALUE AND ENHANCING STAKEHOLDER INTERESTS.

INTRODUCTION

MMI's risk philosophy recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

RISK MANAGEMENT STRATEGY

MMI's key risk management strategies are to:

- understand the nature of the risks MMI is exposed to, the range of outcomes under different scenarios, and the capital required to assume these risks
- manage shareholder value by generating a long-term sustainable return on the capital required to back the risks assumed
- ensure the protection of client interests by maintaining adequate solvency levels
- ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis
- create a competitive long-term advantage in the management of the business with greater demonstrated responsibility to all stakeholders.

Risk management enables management to deal with uncertainty and its associated risks and opportunities effectively, enhancing the capacity to build value.

The MMI board is ultimately responsible for the end-to-end process of risk management, as well as for assessing its effectiveness. Management is accountable to the board for designing, implementing and monitoring the process and for integrating it into the day-to-day activities of the group.

The board discharges these responsibilities by means of frameworks and policies approved and adopted by the board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance, and risk management. The risk management framework applies to all the divisions, business units, subsidiaries and activities of MMI.

RISK APPETITE

MMI's risk appetite is formulated by the Group Executive Committee and approved by the Board Risk and Compliance Committee.

The setting of risk appetite is fundamentally driven by the dual, and at times conflicting, objectives of creating shareholder value through risk taking, while providing financial security for customers through appropriate maintenance of the group's ongoing solvency.

RISK TAXONOMY

MMI actively manages the following risk categories and types of risk:

- Life insurance risk
- Non-life insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Strategic, business and reputational risk
- Operational risk

For further detail on the above risks and their management, please refer to the notes on pages 187 to 225 and the MMI Holdings website **www.mmiholdings.com**.

TRANSFORMATION REVIEW

The Social, Ethics and Transformation Committee (SETC) of the board monitors the group's progress on transformation. The table below illustrates MMI's current performance against the FSC targets:

B-BBEE element	FSC B-BBEE targets	MMI performance calendar year 2012	MMI performance financial year 2013
Equity ownership	14	15.72	15.88
Management control	8	7.82	7.82
Employment equity	15	9.57	9.8
Skills development	10	8.67	7.13
Preferential procurement	16	13.31	12.8
Enterprise development	5	15	15
Socio-economic development	3	3	3
Empowerment financing	15	*Exempt	*Exempt
Access to financial services	14	*Exempt	*Exempt
Total score	100	90.23	88.19
B-BBEE rating		Level 2	Level 2

* Enhanced recognition due to the exemption of empowerment financing and access to financial services.

The B-BBEE verification process for the 2013/2014 financial year is currently in progress.

The group is working hard to meet and exceed, where possible, the targets set by the Department of Trade and Industry (dti) and the FSC. Our group-wide transformation strategy is geared towards ensuring that we build diversity and empowerment both internally, and in the communities we serve. We believe that the sustainability of our markets is dependent on the equitable development of our country and equal access to opportunities for all. We support the country's National Development Plan (NDP), which is aimed at eliminating poverty and reducing inequality by 2030 through uniting South Africans, unleashing the energy of its citizens, growing an inclusive economy, building capabilities, and enhancing the capability of the state and leaders working together to solve complex problems.

In terms of the NDP's enabling milestones, MMI identified specific areas where we can play a meaningful role through our transformation efforts. These are:

- Contribute to the increase in employment from current levels (employment equity, skills development and socio-economic development)
- Establish a competitive base of infrastructure, human resources and regulatory frameworks (empowerment financing, employment equity and skills development)
- Ensure that skilled, technical, professional and managerial posts better reflect the country's racial, gender and disability makeup (employment equity, management control and skills development)
- Broaden ownership of assets to historically disadvantaged groups (ownership)
- Improve the quality of education so that all children have at least two years of preschool education and all children in grade 3 can read and write(socio-economic development)
- Provide affordable access to quality healthcare while promoting health and wellbeing (socio-economic development)

Our external transformation drive is through our preferential procurement and enterprise development initiatives. We constantly pursue meaningful ways in which we can develop black-owned (BO) and black women-owned (BWO) companies in South Africa. In turn, we are also committed to procuring from previously disadvantaged suppliers and have set aside certain commodities and tender opportunities for BO and BWO companies, as well as drive techniques such as early payments of our black suppliers.

OUR EMPLOYEES

The table below details our South African employment equity status as at 30 June 2014.

	South Africa								Foreign nationals		Grand total
	African		Coloured		Indian		White				
June 2014	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	
	4 649	2 667	1 470	849	580	465	1 750	1 191	44	59	13 724
	34%	20%	11%	6%	4%	3%	13%	8%	<1%	<1%	

NUMBER OF EMPLOYEES

Number of employees	30 June 2014	Restated 30 June 2013
Indoor staff	**9 877**	9 597
Momentum Retail	**1 711**	1 573
Metropolitan Retail	**1 174**	1 452
Momentum Employee Benefits	**1 650***	1 361
Metropolitan International	**1 037**	852
Momentum Investments	**667**	693
Metropolitan Health	**2 553**	2 638
Balance sheet management	**68**	66
Group services	**781**	806
Momentum Short-term Insurance	**236**	156
Field staff	**6 815**	6 798
Momentum Retail	**1 041**	993
Metropolitan Retail	**4 424**	4 369
Metropolitan International	**1 350**	1 436
Total employees (including International)	**16 692**	16 395
Total employees (South Africa only)	**14 416**	14 224

* Including Guardrisk employees

SKILLS DEVELOPMENT

Skills development at MMI is seen as key in developing capacity and adding value. We have spent in excess of R67 million on skills development in financial year 2012/2013. This amount does not include the adjusted recognition for gender as was previously included in the 2012 reporting timelines. A significant amount of our spend was directed to the development of black employees. The percentage spent on upskilling black female employees was in excess of 60%.

*For more detail on these initiatives, please refer to the MMI website **www.mmiholdings.com**.*

UNION MEMBERSHIP

All employee relations issues are dealt with by the group manager: risk, governance and labour relations within our strategic human resources division, which is headed by the group strategic human resources executive, an executive director of MMI.

All MMI employees have the right to freedom of association to join a trade union. As at 31 March 2014, the South African union membership at MMI was less than 6% – represented by various unions.

SOCIAL AND ENVIRONMENTAL INDICATORS

METROPOLITAN AND MOMENTUM HAVE VARIOUS CSI INITIATIVES AND SPONSORSHIPS TO SUPPORT THE GROUP'S FOCUS ON CREATING PROSPERITY AND ENSURING FINANCIAL WELLNESS.

CORPORATE SOCIAL INVESTMENT (CSI)

MMI has established the MMI Foundation to provide strategic oversight and governance as well as play an advisory role regarding all CSI initiatives. Metropolitan and Momentum ensure the implementation of their respective CSI strategies and distribute funds allocated to each towards addressing the various social challenges of our country. The Foundation's mission is to create a society where strong leadership and collaboration help bring about sustained behavioural changes and development in the fields of health, disability, education and sports development.

MMI's target for socio-economic development, through the Foundation, is 0.7% of net profit after tax (NPAT). A total of R27 million was spent on qualifying initiatives. The weighted contributions equate to 1.03% of the NPAT for the financial year ended 30 June 2013.

For more detail on these initiatives, please see the MMI Holdings website ***www.mmiholdings.com*** *and the MMI Foundation website at www.mmifoundation.org.za.*

SPONSORSHIPS

Metropolitan and Momentum have various sponsorships to enhance the brand, and support the group's focus on creating prosperity and ensuring financial wellness.

- **Metropolitan development soccer sponsorship**
  Metropolitan has been supporting development soccer for over 25 years aimed at community development and engaging with the people who do business with us. We currently sponsor the Metropolitan U19 Premier Cup (MPC). The MPC tournament – as it is known among its ardent followers – is held in Cape Town and attracts talented youngsters. Scouts also attend the tournament in the hope of finding young talent for various local and international teams.

- **Regional sponsorships**
  Metropolitan also supports a range of regional sponsorships in different provinces. The aim of these sponsorships is to enhance the brand's presence and commitment to grassroots development. We support the Eastern Cape Choral Music Awards, the Run 4 Rhinos Challenge in Mpumalanga, the North West Caddies Golf Day, the Western Cape Choral Music Awards, and the South African National Defence Force (SANDF) Goodwill in Gauteng.

R27m

spent on qualifying socio-economic development (SED) initiatives

>25 years

supporting development soccer

1.03%

of NPAT spent on SED

- **Cricket South Africa (CSA)**
  Momentum is the official single-title sponsor of all one-day cricket under CSA jurisdiction. The sponsorship includes an element of ongoing development at provincial and grassroots level through supporting national club championships and bursaries to talented high school cricketers.

- **Momentum 94.7 Cycle Challenge**
  The race encourages all cyclists to ride for a purpose and to make a difference by attaching a social responsibility goal or component to their cycling experience.

- **Momentum Unisa Household Financial Wellness Index and the Momentum Household Net Wealth Report**
  Researched and presented in collaboration with Unisa, this information provides financial service professionals and consumers with a meaningful overview to better understand and interpret the current state of financial wellness of South African households. It also provides policymakers with insights needed to improve the financial wellness of households.

- **Momentum and Pick n Pay – a unique partnership**
  Momentum is now partnering with retailer Pick n Pay on several of its sponsorship initiatives including The Cape Argus Pick n Pay Momentum Cycle Tour, Knysna Oyster Festival, the Pick n Pay Women's Walk series and the Pick n Pay Marathon. The partnership affords Momentum the opportunity to share its brand vision of enhancing the financial wellness of South Africans with more than 430 000 participants across all events.

FINANCIAL EDUCATION

MMI has a range of promotional activities aimed at enhancing the financial literacy of our customers, thereby supporting them in making more informed and effective decisions that concern their financial welfare. These include:

- *Invest in your future* education brochure featuring information on budgeting, saving, debt management and planning retirement.
- *Invest in your future* workshops held in various rural and township communities, which cover topics such as health and wellness and making informed financial decisions.
- Financial education training aimed at early childhood development practitioners for personal development and the efficient financial management of their various centres.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

MMI promotes acceptance and implementation of the United Nations' Principles for Responsible Investment (PRI) and the Code for Responsible Investing in South Africa (CRISA) principles. Momentum Manager of Managers and Momentum Asset Management are signatories to the PRI. The companies collaborate with other industry bodies, interested parties, service providers and others on ESG, through engagement, discussion and various initiatives.

During the year, Momentum Manager of Managers updated and enhanced its position on responsible investment and sustainability, which included the alignment of the company's approach to sustainability, with those developed by the MMI Group Sustainability Steering Committee.

ESG considerations form an integral part of Momentum Manager of Managers and Momentum Asset Management's daily business processes:

- These companies consider ESG when:
  - making investment decisions – by evaluating ESG factors within the companies invested directly into;
  - selecting investment managers – by assessing their ESG practices and policies and considering these where relevant in the investment decision-making process; and
  - investing in properties – by focusing on energy efficiency, water demand management and by targeting green star ratings for refurbishments.
- Dedicated analysts are primarily responsible for ESG and quality standard policy development and monitoring.
- Where applicable, a record of voting decisions and a register of ESG engagements will be implemented going forward.
- Momentum Manager of Managers has integrated ESG further into its investment manager due-diligence process through more engagement, having taken guidance from the PRI.
- Momentum Manager of Manager offers a responsible investment portfolio, the Momentum MoM SuperNation Portfolio. This investment portfolio is holistic, comprehensive, compliant with regulation 28 of the Pensions Fund Act, 24 of 1956, and is structured to address responsible investment guidelines while at the same time competing directly, from a risk-adjusted return perspective, with other traditional balanced portfolios. Multiple specialist investment managers are mandated to derive active investment returns from differentiated segments of the market. Various responsible investment themes are covered in the portfolio, including, but not limited to, infrastructure and development, developmental property, and responsible investment equity exposure.

SOCIAL AND ENVIRONMENTAL INDICATORS *CONTINUED*

- Momentum Manager of Managers believes in the integration of responsible investment within the investment portfolio offerings and this includes various responsible investment building blocks in the company's "best ideas" Factor Series™ range of portfolios.

Further enhancements to divisional ESG processes are planned, including:

- Divisional voting policy and guidelines are in the process of being revised with reference to the Companies Act, PRI, King III, Global Reporting Initiative (GRI) and various global industry association codes.
- A summary of the company's ESG efforts, its proxy voting policy, a summary voting report and its voting records are available on the Momentum Asset Management's website www.momentuminv.co.za
- Over the years, Momentum Manager of Managers has enhanced the integration of the principles and continues working on initiatives and ways to incorporate these principles in the various investment portfolio offerings, in client interactions and in the industry.

CARBON FOOTPRINT

MMI participates in the carbon disclosure project annually and our submission is publicly available on the CDP website www.cdproject.net.

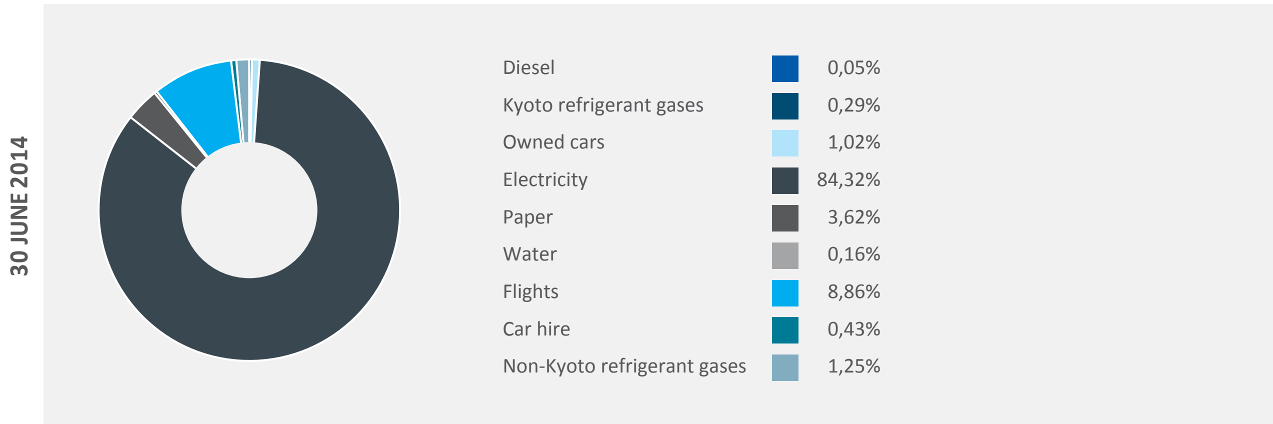
In an endeavour to enhance its own understanding of the risks related to climate change, Momentum Short-term Insurance is currently the main sponsor of the University of Pretoria Natural Hazard Centre for Africa. Through this sponsorship MMI Holdings intends to understand climate change better and more appropriately protect itself and its customers against adverse events due to climate change. It intends to achieve this by quantifying weather-related risks accordingly and developing unique offerings for the benefit of client safety and financial wellbeing.

The total of our carbon emissions for the period 1 July 2012 to 30 June 2013 was 70 652 metric tons, which equates to 4.11 metric tons per employee. As can be seen from the chart below, the largest contributor to our carbon footprint is electricity, at 84%. In terms of reducing our carbon emissions going forward, and to enable the government to achieve its target of reducing country emissions by 34% by 2020 and 42% by 2025, we will concentrate most of our efforts on reducing our electricity usage.

As measurement of the various elements becomes more sophisticated, and complete, it will influence future reports.

*For further detail, please refer to the MMI website **www.mmiholdings.com**.*

CARBON FOOTPRINT



STAKEHOLDER ENGAGEMENT

AT MMI WE BELIEVE THAT THE STRENGTH OF OUR RELATIONSHIPS WITH ALL OUR KEY STAKEHOLDERS IS CRITICAL IN THE ACHIEVEMENT OF OUR STRATEGIC OBJECTIVES AND CREATING MUTUAL VALUE FOR BOTH THE ORGANISATION AND OUR STAKEHOLDERS.

At MMI we believe that the strength of our relationships with all our key stakeholders is critical in the achievement of our strategic objectives and creating mutual value for both the organisation and our stakeholders. As such, our stakeholder management approach involves gaining a thorough understanding of our key stakeholder groups, assessing the issues that are material to them and the level of their impact on them and MMI. In addition, annually we conduct a stakeholder survey in order to measure the quality of our relationships with stakeholders, in line with the governance principles outlined by King III.

In this financial year, we have undertaken an issues and stakeholder mapping process internally to enable us to prioritise stakeholder issues that are of importance to the business. We have developed a stakeholder management mechanism to facilitate seamlessly the registration of stakeholders in the business; and capture the channels and frequency of interactions with the stakeholders. Research and market scanning has been conducted to ensure that the priority issues identified were aligned with stakeholder's perceptions of key issues. Lastly, we conducted our second annual stakeholder relationship index to provide an objective assessment across multiple factors of the effectiveness and relevance of our relationships with all our stakeholder groups.

In collaboration with our stakeholders, we regularly seek to develop plans that will enable us to address or progress the identified issues. The analysis of the register of stakeholders and the feedback from the stakeholder survey also enables us to develop and update the engagement plans that will help us create stronger partnerships and improve on the overall health of our relationships. We will review this process regularly so that we remain relevant by responding appropriately and quickly to issues that emerge – whether regulatory, shareholder-based or other. With this in mind, our stakeholder management approach works in close collaboration with other initiatives and plans in areas such as the operating divisions, sustainability, risk management and communication.

STAKEHOLDER ENGAGEMENT *CONTINUED*

Through various channels and activities, we have had multiple engagements with our stakeholder groups as outlined below:

Stakeholder category	Engagement activity	Some key issues raised
Clients	■ In collaboration with Unisa, we launched the Momentum Unisa Household Financial Wellness Index, which provides insights on the financial wellness of South Africans and our clients. ■ Metropolitan has hosted a number of workshops with clients focused on financial education. ■ MMI is represented on the Asisa Consumer Education Standing Committee. ■ Metropolitan conducted the first TCF Fairness Feedback survey in 2013 which looks at what policyholders and investors in the mass market want in terms of fairness and how the industry is perceived to be delivering on those needs. ■ We continue with various activities such as brand trackers to measure perception of our brands and customer satisfaction surveys. ■ We communicate with our customers through various sponsorship and marketing properties.	■ Consumers under financial pressure and high levels of debt ■ Good customer service expectations ■ Advice that is transparent, easy to understand and given by suitably qualified and knowledgeable advisers ■ Products that are easy to understand and access ■ Financial literacy training ■ Fraud is a key issue in the retail space
Employees	■ The CEO hosted breakfasts with senior managers to canvass views on key business issues, the MMI working environment and address questions about the way forward. ■ An annual Leadership Summit with senior leadership is held to discuss organisational direction and obtain input into the business strategy. ■ Several interactions have been undertaken to communicate the new operating model – face to face and via digital channels. ■ The CEO and several members of the MMI Exco embarked on staff roadshows in SA, Namibia and UK to communicate the group's new vision, purpose and client-centric strategy.	■ MMI's strategy and merger progress ■ Employee value proposition ■ Client-centric operating model ■ Visibility of brands ■ What we are doing to be more innovative ■ Corporate social investment – need to enhance the CSI profile and impact ■ Staff engagement and communication – the importance of open and honest feedback
Investors and analysts	■ The investor relations team employs a wide range of activities to keep all stakeholders informed about the business. ■ Several formal and informal engagements and presentations are held with the JSE (SENS), shareholders and analysts (including one-on-one meetings), all forms of media (print, television and radio broadcasts), as well as local and international roadshows. ■ The CEO, as well as other members of the management team, addressed a number of investor conferences attended by both local and foreign investors.	■ Operational performance ■ Group strategy ■ Plans to grow distribution ■ MMI acquisitions (eg Guardrisk) ■ Capital management
Communities	■ Through the MMI Foundation and the Metropolitan and Momentum brand divisions, we invest in communities in partnership with government departments and in line with the national development plan. ■ In a bid to contribute to the growth of small businesses, we have engaged and partnered with an enterprise development hub – The Business Place – in Phillipi, Cape Town. ■ Our anchor projects in our Corporate Social Investment Programme continue to grow, and we engage with the beneficiary organisations and partners to ensure that sustainable positive outcomes are achieved.	■ Financial inclusion ■ Social welfare and health projects aligned to national policy objections ■ Enterprise development ■ Access to funds through defined programmes by non-profit-making organisations that we support

Stakeholder category	Engagement activity	Some key issues raised
Regulators and government	■ Our expertise and experience in the healthcare and health administration space, particularly in respect of the Government Employees Medical Scheme (GEMS), POLMED and TRANSMED, has us well-placed in being able to engage with regulators and government in matters such as the NHI. ■ Met Health Participates in the CEO round table, where the CEOs of medical funders and administrators, the Board of Healthcare Funders and senior government officials interact and collaborate on key strategic issues in the industry. ■ We also continue to have regular interactions with various government departments to partner with them on CSI activities, assessing areas of collaboration to meet the National Development Plan (NDP). ■ We continue to engage on matters of legislation and regulation with the Financial Services Board (FSB) and National Treasury directly and through our industry association, ASISA, where the MMI CEO is a board member and 80 MMI employees participate in various committees. ■ Frequent interaction took place with the FSB in respect of the Solvency Assessment and Management (SAM) implementation in MMI. ■ Closer working relationships between in-country Regulators are forged through initiatives such as Regulatory Colleges in Africa and legislation such as Foreign Account Tax Compliance Act.	■ Access to and affordability of quality healthcare ■ Partnerships with government to meet the goals of the NDP ■ Twin Peaks regulation ■ Retirement Fund Reform ■ Protection of Personal Information ■ Treating Customers Fairly ■ Solvency assessment and management ■ Financial Services Laws General Amendment Act ■ Financial Account Tax Compliance Act
Media	■ We have regular interactions with media, particularly on the announcement of financial results, acquisitions and senior management appointments. ■ In February we sponsored the *Financial Mail* Budget supplement, which profiled all six MMI divisions and provided opinion editorial from the MMI CEO and the group executives. This supplement received positive reviews. ■ On a daily basis, we deal with media queries and proactively provide content to media on activities in the organisation.	■ MMI merger ■ New MMI client-centric operating model and strategy ■ Sponsorships ■ Expert opinions on financial services topics ■ Result announcements
Trade unions	■ Regular meetings and consultations are held with trade unions to maintain strong relationships and ensure that we continue to deliver a good service in our health administration and employee benefits offering to them. ■ In addition, MMI is a sponsor in an investment training programme for trustees in Cosatu-affiliated unions.	■ Customer service ■ Trustee training ■ Financial education ■ Access to financial services ■ Union recognition by MMI
Suppliers	■ Through our procurement processes, we regularly interact with our suppliers to discuss their services, quality and pricing thereof. ■ Most recently our engagement with suppliers has been focused around ensuring our suppliers are committed to B-BBEE transformation and providing the support to assist them in improving their accreditation.	■ Prompt payment ■ Assistance with growing their business ■ Assistance with meeting specific certification needs ■ Procurement practices eg black women-owned business

CHAIRMAN'S LETTER TO SHAREHOLDERS

JJ NJEKE

DEAR SHAREHOLDER

I believe that the merger between Metropolitan and Momentum was very successful. The success of the merger is the result of contributions from all our stakeholders, who demonstrated their commitment from the date the merger was announced on 30 March 2010. The way in which the MMI board, our leaders, management team and employees implemented the merger integration was remarkable and ensured the creation of an organisation poised for growth. We have a debt of gratitude to everyone who has contributed to the building of MMI over the past three years.

MMI's strong financial results for 2014 are evidence of the success of the merger. Our return on embedded value for the 2014 financial year was 19% and diluted core headline earnings increased by 12% to R3.6 billion. Our total dividends of R3 billion (including the special dividend of R0.8 billion) represents an increase of 51%.

We exceeded our objectives for the MMI merger and I am pleased that the completion of the merger now makes it possible to focus all our attention on MMI's future. The environment remains challenging, but there are many exciting opportunities that we look forward to.

Challenges and new opportunities

South Africa's economic performance is under pressure, as reflected by economists' continued downgrades of the expected growth rates for 2014 and 2015. Inflation is trending upward, further interest rate hikes seem likely and Standard & Poor's downgraded South Africa's foreign credit rating. The main regulatory changes in the insurance industry keep increasing the complexity of the operating environment and the cost of compliance. South African consumers remain under pressure and the recent failure of African Bank illustrates how this situation can have a profound negative affect on financial services organisations. The global consumer advocacy trend is gaining momentum through the increasing role of social media and highly informed consumers.

MMI's strong results in such a challenging environment reflect our view that many attractive growth opportunities remain available. We believe the appropriate response to capitalising on these opportunities and face the headwinds in the environment lies in an unwavering focus on our clients. Therefore, we have developed MMI's client-centric strategy during the past year, which will be implemented through an "outside-in" business orientation with an operating model that places the client at the centre of everything we do. Client-centricity was already a key theme of MMI's strategy, but will now become the way in which we do business and drive growth.

Corporate citizenship

The passing of Nelson Mandela was a stark reminder of our duty to be a responsible corporate citizen who contributes to the improvement of the quality of life of all South Africans. Without Madiba's visionary leadership, South Africa's transition into a peaceful democracy may not have been as smooth. We have a duty to sustain his legacy. MMI is committed to B-BBEE and we are implementing plans to continue increasing our contribution in respect of the Financial Sector Charter. We continue with our corporate social investment (CSI) initiatives, using the MMI Foundation as the main vehicle to make a positive difference in people's lives in the areas of health, education, disability and sport development.

Board changes

Blignault Gouws retired as a non-executive director from the MMI board during the year and I pay tribute to his immense contribution to the success of the group over the past 30 years. I am very pleased that Blignault will continue serving as a member on the Actuarial Committee and Fair Practices Committee. I welcome Louis von Zeuner as a non-executive director of MMI and look forward to his contribution. Mary Vilakazi did not stand for re-election as a board member, but assumed an executive role as chief executive officer of MMI Balance sheet management.

The deputy chief executive officer of MMI and previous chief executive officer of Metropolitan, Wilhelm van Zyl resigned from MMI at the end of June 2014. MMI has benefited significantly from Wilhelm's strategic role during the first three years of MMI's existence. He played a pivotal role as a member of the MMI Executive Committee in leading MMI through the integration process and steering the organisation on its path from integration to growth. I would like to sincerely thank Wilhelm for his role in the creation of MMI and his significant contribution to our people and business over many years.

Prospects

We expect the challenges in our operating environment to prevail in the short to medium term. With the merger truly behind us and armed with its resulting strong foundation, I have confidence in our ability to implement MMI's client-centric strategy successfully and drive long-term growth.

Thanks

In closing, I would like to thank all MMI's stakeholders. To shareholders, thank you for relying on us to add value, and to the MMI board, executive management and employees for your guidance and hard work, all of which contributed significantly to MMI's success.

JJ NJEKE
CHAIRMAN

BOARD OF DIRECTORS

JJ Njeke (55)
Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax
Appointed to board: 2010

Johan Burger (55)
Deputy chairman
Non-executive, independent
BCom (Hons), CA(SA)
Appointed to board: 2010

Nicolaas Kruger (46)
Group chief executive officer
Executive
BCom, FFA, FASSA, AMP (Oxford)
Appointed to board: 2010

Wilhelm van Zyl (49)*
Deputy group chief executive officer
Executive
BCom, FIA, FASSA, AMP (Harvard)
Appointed to board: 2010
* Resigned: 30 June 2014

Ngao Motsei (49)
Group executive: strategic human resources and transformation
Executive
BSocSc (Hons) (UCT), MRP (Cornell University), IOSD (Gestalt Institute of Cleveland), BSHR (INSEAD)
Appointed to board: 2012

Preston Speckmann (57)
Group finance director
Executive
BCompt (Hons), CA(SA)
Appointed to board: 2010

Leon Crouse (61)
Non-executive, non-independent
BCom (Acc), certificate in the theory of accounting, CA(SA)
Appointed to board: 2012

Blignault Gouws (70)*
Non-executive, independent
BSc, FFA, FASSA, AMP (Oxford)
Appointed to board: 2010
* Retired 27 November 2013

Fatima Jakoet (53)
Non-executive, independent
BSc, CTA, CA(SA)
Appointed to board: 2010

For abbreviated curricula vitae of directors, please see the MMI website **www.mmiholdings.com**.

All directors were appointed to the MMI Holdings board with effect from 1 December 2010 – the effective date of the merger. It should be noted that MMI Holdings Ltd (previously Metropolitan Holdings Ltd) was incorporated on 21 December 2000.

Directors' ages as at 30 June 2014.

Niel Krige (65)
Non-executive, independent
MCom; FIA (London); AMP (Harvard)
Appointed to board: 2011

Jabu Moleketi (57)
Non-executive, independent
AMP (Harvard), MSc in financial economics (University of London), post-graduate diploma in economic principles (University of London)
Appointed to board: 2010

Syd Muller (65)
Non-executive, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)
Appointed to board: 2010

Vuyisa Nkonyeni (44)
Non-executive, independent
BSc (Hons); CA(SA)
Appointed to board: 2011

Khehla Shubane (58)
Non-executive, independent
BA (Hons), MBA
Appointed to board: 2010

Sizwe Nxasana (56)
Non-executive, independent
BCom, BCompt (Hons), CA(SA)
Appointed to board: 2010

Frans Truter (58)
Non-executive, independent
BCom (Hons), CA(SA), AMP (Oxford)
Appointed to board: 2010

Ben van der Ross (67)
Non-executive, independent
Dip Law (UCT)
Appointed to board: 2010

Johan van Reenen (59)
Non-executive, independent
BSc (Hons), MBA
Appointed to board: 2010

Mary Vilakazi (37)*
Non-executive, independent
BCom (Hons), HDip Auditing, CA(SA)
Appointed to board: 2010
* Resigned 27 November 2013

Louis von Zeuner (53)
Non-executive, independent
BEcon
Appointed to board: 1 January 2014

Maliga Chetty (44)
Company secretary
BA, BProc, LLM, CIS
Appointed: 2013

GROUP CHIEF EXECUTIVE OFFICER'S OVERVIEW

NICOLAAS KRUGER

MOVING FORWARD

In our chairman's letter to shareholders he refers to the successful completion of the MMI merger. The merger integration has been an exciting journey of three years, culminating in the creation of a much stronger entity than its individual component parts. I am very pleased that the merger integration is complete and that we achieved our annual merger-related expense savings of R522 million (R22 million above target). The MMI management team is equally as excited about the opportunity to focus on the stronger new entity's future prospects.

A merger integration with the complexity and size of MMI inevitably has an opportunity cost in respect of management time and focus. Our efforts have been rewarded by a strong foundation for growth and the ability to move beyond the integration phase is in itself something to look forward to. During the past year, we have already been able to spend more time considering the future environment and MMI's strategic response, which resulted in the formulation of a new client-centric strategy, supporting operating model and new operating structure.

GROWTH THROUGH CLIENT-CENTRICITY

A client-centric approach to doing business was already a key theme of the strategy we formulated for MMI shortly after our listing on the JSE on 1 December 2010. Since then, global trends and developments in South Africa have elevated the importance of client-centricity.

Consumer advocacy has increased significantly, fuelled by the increasing role of social media and a much more active and highly informed consumer. Regulatory scrutiny and compliance requirements are becoming more onerous, with a greater emphasis on market conduct, including fairness, the elimination of conflict of interests and driving professionalism. Rapid technological advances increasingly empower consumers, and make it possible to gain insights into consumer behaviour and needs. New technology makes new client engagement models viable and may change the future distribution landscape.

In response to the above high-level trends, MMI formulated a client-centric strategy comprising the following principles to achieve growth:

- Putting the client at the centre of everything we do
- Providing holistic and lifetime financial wellness solutions
- Creating capability to truly understand the circumstances, needs, preferences and behaviour of clients
- Helping solve society's problem of financial insecurity, under-saving, under-insurance and poor financial literacy
- Maintaining a lean cost base

MMI's new strategy expression is consistent with our previous strategy statements, mirrors these principles and aligns the organisation with the evolving strategic context. We have also given greater prominence to the concept of financial wellness. Our new vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. MMI's strategic focus areas are growth, client-centricity and excellence. All our strategic objectives and the initiatives required to realise these objectives are linked to one of the three strategic focus areas.

NEW OPERATING MODEL

From 1 July 2014, we implemented a new operating model and structure, in support of MMI's new client-centric strategy. The new structure comprises four Client Segment businesses, a Products and Solutions business and a number of group-wide functions.

The Client Segment businesses focus on understanding the needs of the clients in their respective segments, and constructing appropriate client value propositions based on this understanding:

- Momentum Retail focuses on the upper-income, middle-income and SMME market segments in South Africa
- Metropolitan Retail operates in the lower-income market segment in South-Africa
- Corporate and Public Sector focuses on the corporate and public sector market segments in South Africa
- International is responsible for all MMI's efforts outside of South Africa, including Africa, the United Kingdom and Southeast Asia.

Our Products and Solutions business develops the requisite products to deliver on the Client Segments' respective client value propositions. The MMI Group Executive Committee has been reconstituted accordingly and we have embarked on a comprehensive strategy implementation process.

PROGRESS WITH STRATEGIC OBJECTIVES

The client-centricity theme of our previous strategy has been elevated to the primary driving force of MMI's new strategy. All three our new strategic focus areas (growth, client-centricity and excellence) align with the strategic pillars of the previous strategy. Therefore, our strategic diversification objectives remain fully relevant going forward. We made good progress with MMI's diversification objectives during the past year.

Geographical diversification

Our African business has grown earnings by 13% and we continue looking for acquisitive and organic growth opportunities on the African continent. We successfully concluded the acquisition of Cannon in Kenya. We have also made good progress with building our UK business. We are investigating opportunities in India and have expanded the scope of our investigations to the broader Southeast Asian region.

Product diversification

Short-term insurance represents our main product diversification initiative. Following the acquisition of the remaining 50% stake in Momentum Short-term Insurance, we have built capacity in this business and implemented our own short-term insurance system. We have also acquired Guardrisk, a well-known specialist short-term insurer. We plan to increase our market share significantly in the South African short-term insurance market and have also invested in the ability to provide short-term insurance solutions to our African business.

Segment diversification

MMI's middle-income initiative is our primary segment diversification initiative. The middle-income business was successfully launched in July 2014. We remain optimistic about our strategic goal to increase MMI's representation in the South African middle-income segment.

Channel diversification

The global and local trends in respect of social media and self-direction require new thinking in respect of electronic distribution channels. We have created dedicated functions to ensure we capitalise on these opportunities.

Financial wellness

Financial wellness now holds a central position in MMI's strategy. Our Momentum Retail business leads the practical implementation of financial wellness and already has more than 35 000 registered users for their financial wellness tools and solutions. The third Household Financial Wellness Index (a collaborative effort between Momentum and Unisa) has also been released.

FINANCIAL PERFORMANCE

Our focus on value creation was rewarded with an excellent return on embedded value of 19% over the past year, as well as an increase in the value of new business of 14%. Profits from operating divisions grew strongly by 22%, while diluted core headline earnings increased by 12% to R3.6 billion. New business sales (on a present value of premiums basis) increased by 18% to R42 billion. All MMI's operating divisions increased their profits, led by Momentum Employee Benefits' increase of 51%.

- The value of new business for Momentum Retail increased by 18%, supported by an increase in sales volumes and the focus on quality risk business. Momentum Retail increased its earnings by 18%, due to strong experience profits, higher asset-based fees and good expense management.
- Metropolitan Retail's value of new business increased by 13%, also driven by good sales growth. Earnings grew by 15% supported by a solid operational performance.
- Momentum Employee Benefits had another excellent year, increasing earnings by 51% and value of new business by 19%. Strong SMME segment inflows helped the value of new business result, while mortality profits and an increase in investment fees supported the earnings increase.
- Metropolitan International continued leading MMI's geographical diversification growth into Africa and increased core earnings by 13%, despite very tough operating conditions. Value of new business reduced marginally to R49 million.
- Momentum Investments was able to increase its earnings by 13% and made progress to put the right investment building blocks in place.

During the year, Fitch Ratings upgraded MMI's credit rating following the successful completion of the merger and kept our outlook at stable.

TRANSFORMATION

There is no doubt that transformation is both a business imperative and an important part of our duty to be a responsible corporate citizen. We are very pleased with our current level 2 contributor level. The revised future Department of Trade and Industry targets will reduce the contributor levels across the financial services industry. We are embracing this challenge and a number of projects are already underway to improve our contributor level in the future.

Thanks

I would like to thank the MMI board, management team and employees for their significant contributions during the past year. In particular, I would like to thank our chairman, JJ Njeke, for his valuable strategic guidance. The completion of the merger is a significant milestone for MMI. We are grateful for the enthusiasm our management team and employees have shown in designing our new future. I would also like to thank our shareholders for their support and especially all MMI's clients for relying on us to deliver on our promises.

NICOLAAS KRUGER
GROUP CHIEF EXECUTIVE OFFICER

EXECUTIVE COMMITTEE

Nicolaas Kruger (46)
Group chief executive officer
BCom, FFA, FASSA, AMP (Oxford)
Financial services industry experience: 23 years

Preston Speckmann (57)
Group finance director
BCompt (Hons), CA(SA)
Financial services industry experience: 22 years

Mark van der Watt (46)
Chief executive: Momentum Retail
BSc (Hons), FIA, FASSA
Financial services industry experience: 19 years

Khanyi Nzukuma (43)
Chief executive: Metropolitan Retail
BA, MBA, PhD
Financial services industry experience: 16 years

Herman Schoeman (51)
Chief executive: Corporate and Public Sector
BCom, MBA
Financial services industry experience: 24 years

Blum Khan (57)
Chief executive: Metropolitan International
CA(SA)
Financial services industry experience: 19 years

Etienne de Waal (46)
Chief executive: Products and Solutions
BCom (Hons), FFA, FASSA
Financial services industry experience: 23 years

Danie Botes (50)
Chief operating officer
BCompt (Hons)
Financial services industry experience: 29 years

Mary Vilakazi (37)
Chief executive: Balance sheet management
BCom (Hons), HDip Auditing, CA(SA)
Financial services industry experience: 14 years

Vuyo Lee (36)
Group executive: Brand and Corporate Affairs
BCom (Hons), MAP, MBA
Financial services industry experience: 10 years

Ngao Motsei (49)
Group executive: strategic human resources and transformation
BSocSc (Hons) (UCT), MRP (Cornell University) IOSD (Gestalt Institute of Cleveland), BSHR (INSEAD)
Human resources experience: 13 years

Jan Lubbe (43)
Chief Risk Officer
CA(SA), MBA, MCom
Financial services industry experience: 20 years

GROUP FINANCE DIRECTOR'S REPORT

PRESTON SPECKMANN

INTRODUCTION

MMI's results for 2014 confirm that the group has continued on its path of reshaping itself to meet the challenges facing the industry and at the same time live up to its defined purpose of "enhancing the lifetime financial wellness of people, their communities and their businesses".

Despite uncertain economic indicators and market volatility the group performed well, with exceptional expense management across divisions and a healthy increase in operating profits from all divisions.

All these factors contributed handsomely to the group's ability to deliver quality earnings and embedded value growth from all its divisions which has also become a key and recognised metric amongst shareholders.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The full results have been prepared in accordance with International Financial Reporting Standards (IFRS); relevant SAICA guides and Pronouncements; JSE Listings Requirements; as well as the South African Companies Act 71 of 2008. The accounting policies have been applied consistently to all the periods presented, except for the new and revised accounting standards adopted. The most significant of the new standards adopted was IFRS 10, resulting in additional collective investment schemes being consolidated and updates on cell captive disclosures. The comparatives have been restated for this; however, it had no impact on the current or prior year earnings or net asset value.

RECENT TAX AMENDMENTS

Life Insurance Taxation

National Treasury has announced its intention to separate the taxation of risk and investment business of long-term insurers. Industry players have had formal discussions with National Treasury and SARS regarding the practical implementation thereof. The concern behind this initiative is that risk policyholders are currently benefiting in that expenses relating to risk policies can be offset against investment returns from investment policies. Risk business will no longer be subject to trustee taxation; instead only trading profits will be taxed, similar to short-term insurance. The proposed mechanism to achieve this is to treat new risk policies written from 1 January 2016 directly in the Corporate Fund (CF).

Treasury agreed to apply the regime change to new business only, commencing in 2016. While the principle is generally supported, industry seeks more clarity in respect of the details and implementation of the proposal in order to consider its full impact.

MMI is still assessing the proposal but remains concerned that it may result in an increase in risk premiums over the longer term.

FATCA

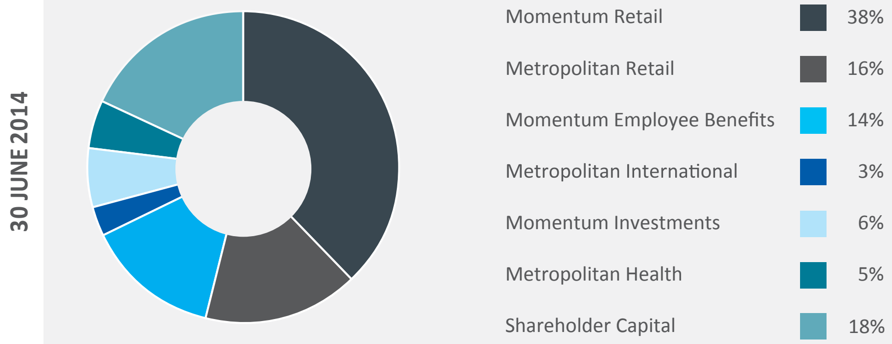
Foreign Account Tax Compliance Act (FATCA) became effective on 1 July 2014 and ushered in a new era of inter-governmental reporting. South Africa concluded a Model 1 Inter-governmental Agreement (IGA) with the United States that simplified the reporting requirements for South African entities. Formal reporting in terms of the IGA will commence on 1 June 2015 and the group has implemented a project to meet the requirements.

With regard to the group's foreign operations located in a country that has not concluded an IGA, the respective entities were categorised and registered directly with the Internal Revenue Service (IRS), which will prevent the imposition of withholding charges. It is, however, anticipated that the impact will be limited as most of the products offered in the foreign jurisdictions will fall below the reporting thresholds of FATCA.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

	June 2014 Rm	Restated June 2013 Rm	Change
Momentum Retail	**1 372**	1 158	18%
Metropolitan Retail	**587**	509	15%
Momentum Employee Benefits	**516**	341	51%
Metropolitan International	**122**	108	13%
Momentum Investments	**197**	175	13%
Metropolitan Health	**171**	140	22%
Operating divisions	**2 965**	2 431	22%
Shareholder Capital	**656**	810	(19%)
Total diluted core headline earnings	**3 621**	3 241	12%

CONTRIBUTION TO OPERATING PROFIT



DIVISIONAL PERFORMANCE REVIEW

Life businesses	Momentum Retail			Metropolitan Retail			Momentum Employee Benefits		
	June 2014 Rm	Restated June 2013 Rm	Change	June 2014 Rm	Restated June 2013 Rm	Change	June 2014 Rm	Restated June 2013 Rm	Change
Total funds received	**33 849**	33 210	2%	**6 820**	6 246	9%	**19 914**	14 826	34%
New business PVP**	**20 434**	17 421	17%	**5 372**	5 042*	7%	**14 491**	11 627	25%
Recurring	**1 022**	1 057	(3%)	**1 083**	990*	9%	**1 033**	769	34%
Single	**14 926**	11 376	31%	**1 501**	1 230	22%	**5 351**	5 067	6%
Value of new business	**240**	203	18%	**236**	209*	13%	**254**	213	19%
PVP margin	**1.2%**	1.2%	–	**4.4%**	4.2%*	–	**1.8%**	1.8%	–
Operating profit after tax	**1 372**	1 158	18%	**587**	509	15%	**516**	341	51%

* Excludes FNB Life business.
** Present value of premiums.

DIVISIONAL PERFORMANCE REVIEW *CONTINUED*

Metropolitan International	June 2014 Rm	Restated June 2013 Rm	Change
Total funds received	**3 740**	3 471	8%
Life insurance			
New business PVP	**1 866**	1 635	14%
Value of new business	**49**	56	(13%)
PVP margin	**2.6%**	3.4%	
Health			
Membership ('000)	**415**	394	5%
Claims ratio	**71%**	69%	
Operating profit after tax	**122**	108	13%

Momentum Investments	June 2014 Rbn	Restated June 2013 Rbn	Change
Funds received	**78**	106	(26%)
Funds paid out	**(85)**	(86)	–
Net flows	**(7)**	20	–
Assets under management	**395**	356	11%
	Rm	Rm	
Operating profit (incl investment income) after tax	**197**	175	13%

Metropolitan Health	June 2014	Restated June 2013	Change
Total principal members	**1 169 045**	1 144 171	2%
	Rm	Rm	
Operating profit (incl investment income) after tax	**171**	140	22%

GROUP FINANCE DIRECTOR'S REPORT *CONTINUED*

MOMENTUM RETAIL

Despite trading conditions that remained challenging throughout the 2014 financial year, Momentum Retail increased its operating profit for the year by 18% to R1 372 billion.

New insurance business, on a present value of premiums (PVP) basis, increased by 17% to R20.4 billion for the period under review.

Solid revenue growth of 8%, due to good fee margin growth as well as growth in fee-based revenue combined with good expense management, resulted in core headline growth of 18%.

The value of new business increased strongly by 18% to R240 million, boosted by excellent guaranteed endowment sales. Good risk experience continued, confirming the benefits of focusing on good quality new business.

The good new business volumes, together with good expense management, resulted in a satisfactory value of new business margin of 1.2%.

METROPOLITAN RETAIL

Clients throughout Metropolitan Retail's target markets were negatively affected by reduced disposable income and exposure to consumption debt. Regardless of the harsh economic conditions faced by clients, the Metropolitan brand once again proved to be one of the main competitors in the emerging market segments. Single premium new business continued to perform very well, ending 22% higher, while recurring premiums increased by 9%.

The division's contribution to group headline earnings increased by a healthy 15% to R587 million. From 1 July 2013, the 10% profit share arrangement with FNB Life reduced to a 4% share. The value of new business for the year increased 13% to R236 million supported by well-contained expenses.

The division is in the process of building a new policy administration system, called Khula, which will ultimately result in cost benefits.

MOMENTUM EMPLOYEE BENEFITS (MEB)

The operational and financial performance of MEB for the reporting period under review was excellent, with profits of R516 million, which is 51% above the profit achieved during the corresponding period for the 2013 financial year.

This performance was achieved despite significant pressure from competitors, especially in the large risk schemes space.

It is particularly pleasing to note that all the different businesses in the division contributed to the exceptional performance over the reporting period. Good risk and investment recurring premium new business were secured, particularly in the small, medium and micro-enterprise (SMME) space, while increased retirement fund single premiums further boosted volumes.

Client retention interventions resulted in better persistency across all product lines, while improved risk profit performance, with a recovery in disability experience, contributed to positive operating experience variances.

The VNB of R254 million exceeded expectations and can largely be attributed to the performance of the SMME business segment.

The acquisition of Guardrisk, the specialist alternative insurance provider, is significant as it provides MEB access to scarce skills, additional niche insurance products, material growth in the corporate client base and a range of opportunities to unlock value from the synergies identified between the two businesses.

Product innovation remains a priority and much work has been done, especially on developing new and innovative products for the investment market which will improve the competitiveness of the division in this market.

METROPOLITAN INTERNATIONAL

New business increased 14% to R1.9 billion, on a PVP basis, with improved contributions from most operations. The division contributed R122 million to core earnings, which represents a significant 13% increase on the prior year.

Lives under administration in the health business (Momentum and Metropolitan Health) increased by 5% to 415 000.

This business acquired a 75% share in Cannon Assurance in Kenya after year-end. The financial results of this business will be included in MMI's results from the 2015 financial year.

MOMENTUM INVESTMENTS

Core earnings for the investments division increased 13% to R197 million. Increased revenue, with a focus on cost efficiencies, resulted in improved expense ratios.

The drive for investment excellence is paying off, with equity and balanced fund performance showing satisfactory improvement.

The longer-term outlook for the investment management business is positive through:

- Key investment capabilities delivering good performance
- The Momentum investment brand regaining traction in the market
- The strengthening of alignment to the group and its new business model

The business continues with its focus on investment excellence and improving the client experience, as well as operational efficiencies.

METROPOLITAN HEALTH

The growth of 22% in diluted core headline earnings to R171 million is mainly due to the acquisition of Providence Healthcare Risk Managers and cost-saving initiatives implemented by management. Total members under administration remain steady at 1.2 million principal members or three million lives.

The business continues to refine the operating environment in order to ensure seamless delivery of the multiple administration models.

Management is confident that all key services were delivered to the relevant medical schemes and that the Public Scheme solvency stood at 46.33% towards the end of the reporting period.

Going forward, the focus remains on client retention and consistent and excellent client-service delivery to all its stakeholders.

SHAREHOLDER CAPITAL

The core earnings attributable to shareholder capital decreased overall by 19% to R656 million. This comprises an increase of 20% in the core earnings of Balance sheet management (BSM), and a decline of 44% in the core earnings arising from the remainder of the shareholder capital components. These items comprise the investment income on shareholder assets and losses arising from certain strategic initiatives that are in a start-up phase.

The increase in the BSM results was driven by the positive impact of strong equity market growth on the market risk management strategies employed by BSM.

The decrease in the core earnings from the remainder of the shareholder capital items is due to:

- The decrease in the capital base due to the acquisition of Guardrisk, the payment of the special dividend in the prior year and the repurchase of the MMI Group Limited preference shares from FirstRand;
- The start-up losses arising from Momentum Short-term Insurance and Hello Doctor; and
- The non-recurrance of the release of certain tax over-provisions in the prior year.

CAPITAL MANAGEMENT

Despite investment markets globally having recovered and good performance from the South African investment markets during the reporting period, the situation is still volatile and unpredictable. The group remains satisfactorily capitalised as shown in the current statutory capital adequacy requirement (CAR) covers of the various life businesses, also evidenced by the fact that the MMI Holdings life entities' solvency requirements are covered 2.9 times, with discretionary margins of R9.6 billion (net of tax).

The group is in the process of preparing for the adoption of the Solvency Assessment and Management (SAM) regulatory capital regime which will be applicable from 1 January 2016.

We participated in the Financial Services Board's (FSB's) third quantitative impact study (QIS 3). Technical details are still being deliberated, and the outcome of these deliberations will be incorporated into the capital modelling process. The FSB will also in the interim introduce certain minimum standards of risk management and governance through a Board Notice as well as a formal framework for insurance group supervision that will be provided for through the Twin Peaks process. The group participated in the FSB's second Pillar II readiness assessment and early indications are that the group will be well positioned to deal with the requirements once effective.

2014 is a landmark year for SAM as the project will officially move from the development phase to the implementation phase, with the introduction of the light parallel run in the second half of 2014. During 2015, implementation efforts will be increased in the move to the comprehensive parallel run. There will also be a mock Own Risk and Solvency Assessment (ORSA) exercise where the group will be required to submit some ORSA information to the FSB.

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

For a detailed report on the group's capital management activities I would like to refer you to the risk management and balance sheet management sections of this report on pages 189 to 192 and page 43 and 44.

KEY PERFORMANCE INDICATORS

MMI assesses its operational performance against a set of key performance indicators that are approved and annually reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives.

SHORT-TERM PERFORMANCE INDICATORS – BALANCED SCORECARD

Short-term deliverables are measured over a period of 12 months and are reviewed on an annual basis. For the financial year ended 30 June 2014, the following set of short-term deliverables applied to the group as a whole:

Performance management	Weighting	F2014 target	Actual	Achieved
Return on embedded value (ROEV)*	20%	**11%**	16%	Target exceeded
Core earnings	25%	**11% growth**	12%	Target achieved
Value of new business (VNB)	20%	**R756m**	R779m	Target achieved
Transformation	15%	**FSC score of 75**	79	Target achieved
Strategic initiatives	20%			Target achieved

* For purposes of measuring performance over a 12-month time horizon, the return on embedded value excludes items that can directly be ascribed to movements in investment markets. This is done to emphasise operational performance.

For internal measurement purposes, performances against each of the five indicators are evaluated against a scale of one to five, where the targets (as per the table) each corresponds to a "three" rating. Specific targets have been set for each division and subsidiary.

LONGER-TERM PERFORMANCE INDICATOR – RETURN ON EMBEDDED VALUE (ROEV)

As an indicator of financial performance over the medium to longer term, the group's return on embedded value is measured on an annual basis, but averaged over a rolling three-year period. The targeted rate of return has been set at 300 basis points in excess of the annual growth in South Africa's gross domestic product (GDP). The target is reviewed on an annual basis.

The performance of the group is measured against the targeted hurdle rate, as well as against the average ROEV achieved by MMI's peers over the three-year period.

The following table is an analysis of the group's return on embedded value for the year ended 30 June 2014:

	2014	
	Rm	**ROEV**
Expected return – unwind of risk discount rate (RDR)	**2 289**	**6.5%**
Operating experience variances	**544**	**1.5%**
Embedded value from new business	**779**	**2.2%**
Investment return on adjusted net worth	**1 063**	**3.0%**
Investment variances	**1 278**	**3.6%**
Non-covered (excl basis changes)	**718**	**2.0%**
Total (excl assumption changes)	**6 671**	**19.0%**
Operating assumption changes	**316**	**0.9%**
Economic assumption changes	**(323)**	**(0.9%)**
Total return on embedded value	**6 664**	**19.0%**

The returns shown in the table are aggregates for the group, including both covered and non-covered business.

CREATING SHAREHOLDER VALUE

On an embedded value basis, MMI created shareholder value amounting to R6.7 billion during the 2014 financial year. This represents an impressive 19% return on embedded value, despite the conservative investment strategy followed on MMI's economic capital base.

The embedded value earnings were characterised by excellent risk underwriting results across all the life divisions. The group also benefited from excellent equity market returns and beneficial levels of interest rate and equity volatilities in South Africa in terms of increases in fees and reductions in investment guarantees.

Various group-wide initiatives are starting to filter through in terms of improvements to the valuations of strategic subsidiary companies.

MERGER SAVINGS

Total recurring merger savings of R522 million (target R500 million) per annum was achieved before the 2014 financial year-end.

DIVIDENDS

MMI's approved dividend policy is to provide shareholders with stable dividend growth that reflects underlying earnings growth in the medium term, while allowing the dividend cover to fluctuate.

The dividend history table below confirms the cash-generative nature of the group. It also reflects MMI's commitment to providing shareholders with steady dividend growth. The operational performance of the group over the past 12 months enabled the board to declare a 12% increase in the total dividend to 142 cents per share and a special dividend of 50 cents per share.

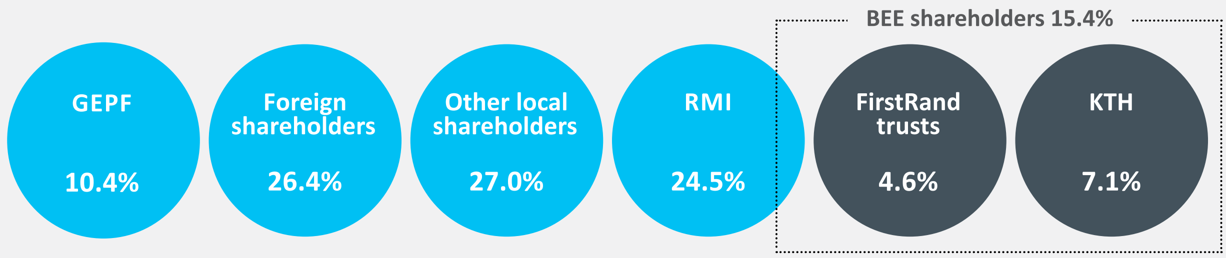
Dividends	2011	2012	2013	2014
Ordinary dividend paid cents per share (cps)	105.00	113.00	127.00	**142.00**
Growth in dividend per share (%)	–	8	12	**12**
Dividend cover (times – core headline earnings per share)	1.6	1.6	1.6	**1.6**
Dividend yield (%)	6.2	6.3	5.7	**5.4**
Special dividend paid (cps)	21	65	–	**50**

VALUE ADDED STATEMENT

	30 June 2014 Rm	Restated 30 June 2013 Rm
How we created value		
Revenue	**87 654**	73 414
Net insurance premiums received[1]	**23 138**	23 304
Fee income	**6 567**	6 205
Investment income	**14 043**	13 046
Net realised and fair value gains	**43 906**	30 859
Less:		
Non-operational expenses	**(8 381)**	(7 767)
Commission paid to agents and brokers	**(3 899)**	(3 061)
Value created	**75 374**	62 586
How we allocated this value		
Insurance benefits and claims[2]	**63 130**	52 347
Employee benefit expenses	**5 132**	4 494
Depreciation, amortisation and impairment	**1 159**	1 144
Government	**2 458**	1 804
Shareholders	**2 287**	3 032
Ordinary dividends paid	**2 092**	2 886
Finance costs of debt (Including Preference shares)	**195**	146
	74 166	62 821
Business expansion/(net reduction of capital)	**1 208**	(235)
	75 374	62 586

[1] Net insurance premiums received include premiums from insurance and investment with discretionary participation features (DPF) business.
[2] Insurance benefits and claims include claims from insurance and investment business and the change in insurance related liabilities.

SPLIT OF SHAREHOLDERS



CONCLUSION

The 2014 financial year brought with it many challenges. However, the group was also presented with strategic business opportunities which were keenly and successfully pursued by the relevant divisions.

I would like to acknowledge the invaluable contribution of all the divisions and group support service areas within the group, as well as my fellow directors, for their dedication and strategic input in making MMI the reputable and leading financial services provider it has become.

PRESTON SPECKMANN
GROUP FINANCE DIRECTOR

BALANCE SHEET MANAGEMENT (BSM)

BSM has been tasked with enhancing and protecting the MMI shareholder balance sheet as far as exposure to direct market risk is concerned. In managing these risks, BSM seeks to enhance returns and earnings while optimising the level of market risk capital the group is required to hold against these risks. BSM is responsible for ensuring that these risks are identified, quantified, monitored and actively managed within an approved mandate and framework. The financial performance of BSM is included in the Shareholder Capital segment in the segmental report on pages 128 and 129.

OPERATIONS

The operating model presents one view of the sensitivity of the shareholder balance sheet to market and credit risks, and the resultant impact of these sensitivities on earnings, embedded value and solvency. This gives rise to a significant business opportunity through the generation of profits while optimising capital levels and market risk management, on a holistic balance sheet basis, by being able to:

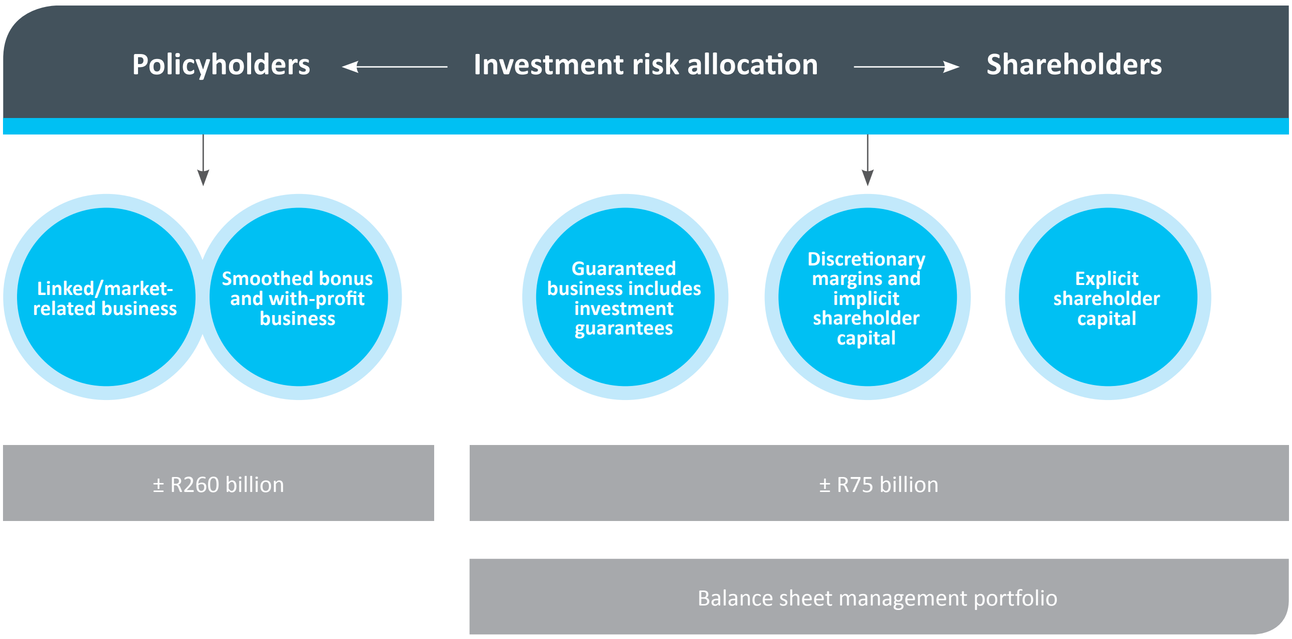
- Manage the balance sheet within group risk tolerance levels
- Manage market risk economic capital levels
- Apply a single market risk view across the MMI balance sheet thereby removing sub-optimisation
- Manage net market risk positions and alleviating offsets
- Manage shareholder credit exposures and credit lines to optimise portfolio diversification
- Extract asset acquisition scale benefits in hedging activities
- Manage funding sources and liquidity requirements
- Manage sub-optimal performance at portfolio level

The unit protects the shareholder balance sheet against direct exposure to market risks that impact embedded value, earnings and solvency. These market risks include:

- interest rate risk
- inflation risk
- equity risk
- credit risk
- liquidity risk

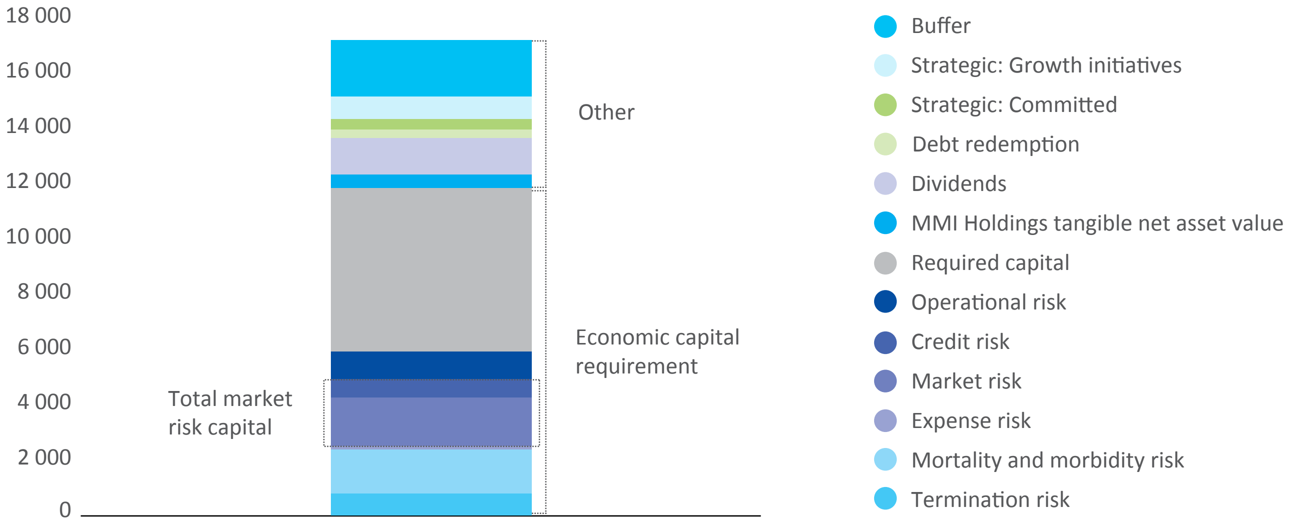
SHAREHOLDER BALANCE SHEET

The diagram below shows how the shareholder balance sheet (managed by BSM) fits into the total MMI balance sheet.



BALANCE SHEET MANAGEMENT (BSM) *CONTINUED*

SHAREHOLDER ECONOMIC CAPITAL (Rm)



CAPITAL STRENGTH

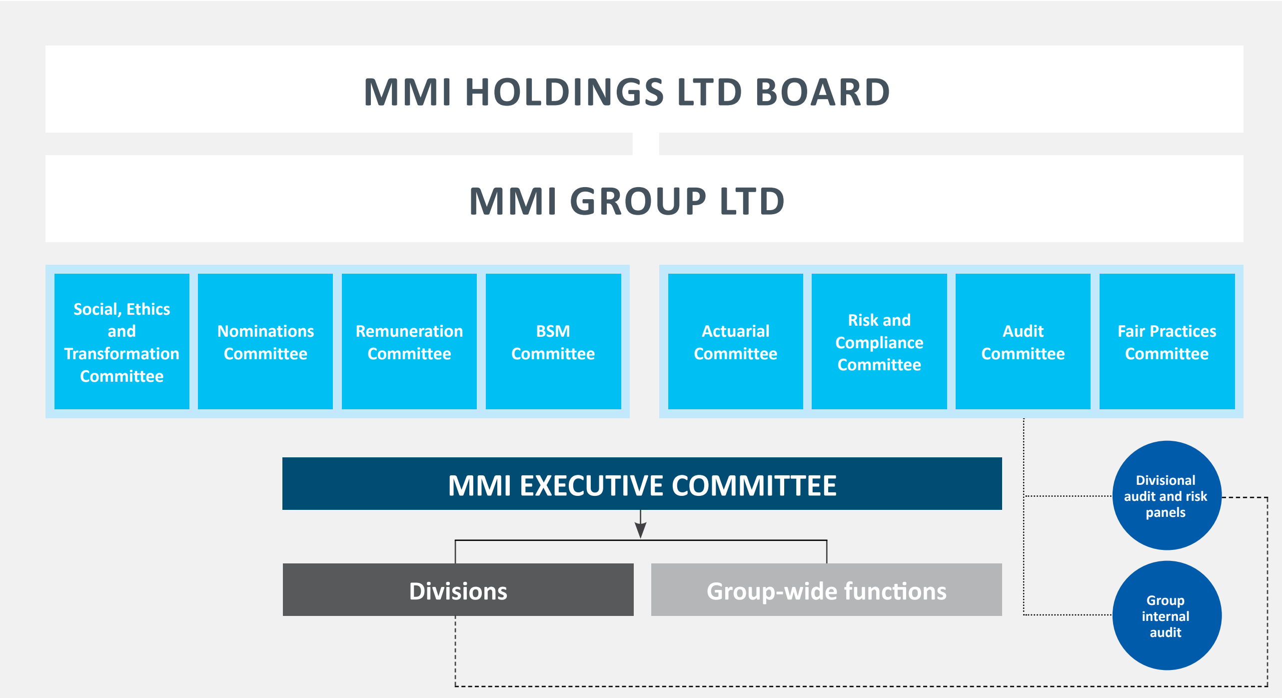
Economic capital	Rbn
Net asset value as per embedded value statement	17.0
Qualifying debt	3.0
Less: net asset value of strategic subsidiaries	(2.1)
Less: required capital	(10.1)
Capital buffer before deployment	7.8
Deployed	(4.6)
Final dividend	(1.4)
Special dividend	(0.8)
Debt redemption	(0.5)
Strategic growth initiatives	(1.9)
Capital buffer after deployment	3.2

KEY AREAS OF STRATEGIC AND OPERATIONAL FOCUS FOR 2015

- Capital management: BSM will seek to optimise the capital requirements, with specific focus on the market risk component of the economic capital.
- Cash and liquidity: BSM need to further develop operations and processes in order to optimise and enhance the cash and liquidity position of the group.
- Deal-making: BSM must continue to enhance earnings and value through implementation of transactions in accordance with mandates and risk tolerance levels.
- Additional sources of income: BSM will seek potential additional sources of income within the group by leveraging its existing capabilities.
- Mergers and acquisitions: BSM will establish a separate capacity to specifically co-ordinate mergers and acquisitions within the group.
- Implementation of the operating model: BSM need to finalise the implementation of the operating model, which will yield significant benefits as described in the operations paragraph above.

CORPORATE GOVERNANCE REPORT

GROUP GOVERNANCE STRUCTURE



INTRODUCTION

The MMI board is committed to the highest standards of corporate practice and conduct, as recommended in the King Report on Governance for South Africa 2009 (King III). The group strives to have the best processes in place to implement principles of good corporate governance and to assist directors in discharging their duties and responsibilities, which include the delivery of excellent service to all stakeholders. Appropriate best practice is adopted and monitored in all the countries where the group operates.

GOVERNANCE OF RISK

MMI recognises that clear accountability is fundamental to risk management and makes use of various assurance providers for its key risks, processes and controls. These assurance providers are all independent of the group and its activities. Combined assurance integrates and co-ordinates the activities of the assurance providers, whose functions include risk management, compliance, actuarial, internal audit and external audit. The MMI governance model is described in more detail in the MMI governance framework which is available on the MMI website **www.mmiholdings.com**.

ASSESSMENT OF KING III PRINCIPLES

The assessment of the application and implementation of King III is ongoing, and includes current levels of compliance in respect of the guidance and oversight of risk, governance and compliance management across the group.

The results to date show that MMI's governance processes are well entrenched, and that the group is generally compliant with all the principles of King III. Where gaps have been identified, plans are being put in place to ensure compliance.

The main gaps are:

- Principle 7: The chief audit executive (CAE) should have a standing invitation to attend Executive Committee (Exco) meetings. Although the group's CAE does not have a standing invitation to MMI Exco meetings, he is operationally represented by the group Finance Director. He attends MMI Exco meetings when required to provide input or to report on particular issues, and has access to all the information required in fulfilling his duties and obligations. He attends all Audit Committee meetings.
- Principle 9: Sustainability reporting and disclosure should be independently assured. MMI previously commissioned an audit readiness assessment on selected non-financial indicators. Based on the findings of this assessment, the future assurance processes are still in the planning stage.

A table disclosing all the principles of King III, and how each has been applied, is available on the MMI website **www.mmiholdings.com**. Reasons are given in each instance where a principle has not been applied.

BOARD AND COMMITTEES

The MMI board has been designated as the custodian of the group's corporate governance. The board is mandated in terms of its charter, and the board committees in terms of their respective terms of reference. The board charter and the committees' terms of reference clarify the MMI approach, and are available on the MMI website **www.mmiholdings.com**:

- The governance framework adopted by the board is based on King III.
- The board aspires to a progressively mature approach, with appropriate adoption of international best practices and frameworks.
- The board fully supports the appropriate implementation of corporate governance.
- The board is committed not only to the principles and recommendations contained in the King reports, but also to the practices outlined therein as these apply to the economic activities of the group.
- The board embraces a triple bottom line approach, which includes a strong focus on the economic, environmental and social impact of the group's business activities and not just its financial results.
- In exercising their fiduciary duty with due care, skill and diligence, the board will act in the best interest of all stakeholders of the group and not only shareholders, acting responsively and with responsibility towards them all.

The committees are currently addressing the following issues:

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE (SETC)

The MMI SETC has been in operation for over three years, and it focuses on monitoring and providing the group with strategic guidance on the delivery of transformation in line with the Companies Act, 71 of 2008 (Companies Act), and other related legislation. As a governance body for transformation, the committee has made progress in guiding the group in building a diverse workplace. The drive for diversity and transformation is evidenced in MMI's ability to maintain a level 2 contributor status for two successive years (2012 and 2013). Some of the strategic initiatives that MMI was able to deliver with the support of the committee include:

- MMI talent management strategy, which is aimed at ensuring consistency in the management of talent in general and equity talent in particular, as well as key value roles within the group.
- MMI leadership framework, which provides direction on the type of leadership behaviour, notably values-based and ethical behaviour, required across the group.
- Quarterly monitoring of the transformation strategic deliverables.
- Overseeing the process of aligning the transformation strategy with the Financial Sector Charter (FSC) code and the revised B-BBEE codes.
- Monitoring the group's performance against the MMI employment equity (EE) plan.
- Ensuring that company procedures are ethical and in line with the legislative requirements of risk, compliance and Treating Customers Fairly.
- Drive for environmental sustainability and corporate social investment.

Sustainability governance

The head of sustainability at MMI is supported by a sustainability champion in all group divisions. The champions are responsible for elevating division-specific sustainability issues to group level and for driving group-led sustainability activities at divisional level to address identified focus areas.

MMI's Exco performs a management review function and raises pertinent issues with the relevant committees of the board as and when appropriate.

Final accountability rests with the board and its committees, including the executive committees.

FAIR PRACTICES COMMITTEE (FPC)

The FPC is mandated by the board to ensure that the fair treatment of clients is embedded as a core corporate value at all levels within the MMI group of companies. Furthermore, the FPC functions as the Discretionary Participation Committee of MMI's life companies, ensuring the compliance with, and the monitoring of any changes to the principles and practices of financial management. Finally, the FPC acts as the independent governance forum responsible for overseeing the implementation of, and adherence to, the Treating Customers Fairly initiative of the Financial Services Board (FSB). During the year under review, the FPC carried out the above functions.

REMUNERATION COMMITTEE

One of the key roles of the Remuneration Committee is to assist the board by ensuring that MMI's pay and reward systems are sufficiently competitive to attract, retain and motivate critical talent that can have a positive influence on group performance. The committee takes into account local and international industry benchmarks, ensures that remuneration and incentive schemes are aligned with good business practice and that excellent performance is rewarded accordingly. In the past year, a focal point was to amend the group's remuneration policy and revisit the deferral of variable remuneration in line with the Solvency Assessment and Management (SAM) regime. The committee also played an important role in developing appropriate key performance indicators and targets for the short-term incentive balanced scorecard. During this reporting period, the final integration of benefits was implemented with all permanent employees joining the new MMI Group Retirement Scheme (MGRS).

ACTUARIAL COMMITTEE

The role of the Actuarial Committee is to impart effective actuarial expertise to the board, to enhance its understanding of technical actuarial matters; to assist the board in discharging its fiduciary duties to policyholders and shareholders; and to assist the statutory actuary in fulfilling his professional and statutory duties. During the year, in addition to these roles, the Actuarial Committee played an instrumental role in reviewing SAM Pillar I results as well as relevant SAM policies in preparation for the light and full SAM parallel runs.

RISK AND COMPLIANCE COMMITTEE

The committee assists the board in discharging its responsibility for the total process of risk management and compliance within the MMI group.

During the preceding year, the committee dealt with various matters relating to risk evaluation, risk management processes and adherence to the group's risk management framework. The committee focused on the review and challenge of the holistic risk profile, with specific attention to strategic and operational risks. The committee also reviewed MMI's overall compliance with significant laws and regulations.

The committee approved a number of new frameworks and policies required under the SAM interim measures, including the annual approval of the policies and frameworks already in existence at MMI. The revised terms of reference for the committee were approved by the board.

BALANCE SHEET MANAGEMENT COMMITTEE (BSM)

The BSM Committee focuses on the enhancement and protection of the shareholder balance sheet and the impact that investment market volatility has on the group's solvency, embedded value and earnings. The committee fulfils a corresponding oversight role and assists the MMI board in forming an independent opinion regarding the quality, integrity and reliability of the group's BSM procedures and processes. During the year, the committee focused on the refinement of the asset-liability matching disciplines and risk limits applicable to those portfolios where shareholders assume the exposure to market risks.

AUDIT COMMITTEE

The Audit Committee is an independent statutory committee appointed by the shareholders. In addition to its statutory responsibilities, the committee deals with duties that are delegated to it by the MMI board of directors. During the year, various issues were tabled, such as:

- approval of the published MMI group financial results;
- trading updates;
- review of the integrated report;
- approval of the risk-based internal audit plan for the financial year;
- approval of the external audit plan for the financial year;
- reviewing management's assessment of going concern;
- development of the combined assurance model;
- review of the group's internal financial controls (IFC); and
- recommendations on the dividend proposals.

The committee discharges its responsibilities with the support of the divisional audit and risk panels, which report to the committee on a quarterly basis. The external and internal auditors attend committee meetings by invitation, present regular reports to the committee, and meet independently with the committee members from time to time. The committee monitors adherence to its roles and responsibilities against a well-structured matrix, which corresponds to the terms of reference of the committee and is in line with both the Companies Act and King III recommendations.

The Audit Committee also has responsibility for the oversight of:

Group internal audit services

MMI Group Internal Audit (GIA) provides independent, objective assurance and consulting services designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and assessing the effectiveness of risk management, internal control, and governance processes. Major weaknesses are brought to the attention of the Audit Committee of the board, the external auditors and members of executive management for their consideration and remedial action.

The chief audit executive (CAE), in discharge of his/her duties, is accountable to the board, Audit Committee and audit panels of the MMI group, which consist of MMI Holdings Ltd and its subsidiaries. The CAE reports administratively to the MMI group finance director and functionally to the MMI group Audit Committee chairperson. The MMI group Audit Committee decides on the CAE's appointment and removal and is responsible for his/her performance evaluation.

CORPORATE GOVERNANCE REPORT *CONTINUED*

The MMI CAE resigned during the period under review, and the group Finance Director, Preston Speckmann, is currently managing this portfolio until a new candidate is appointed.

Divisional audit and risk panels

The Audit Committee is assisted by divisional audit and risk panels, which have been established in terms of its mandate. The audit and risk panels report quarterly to the MMI Audit Committee. The roles and responsibilities, authority, composition, operations and other matters relating to the divisional audit and risk panels are delegated to them by the Audit Committee. The responsibilities of the audit and risk panels in respect of the divisions are essentially the same as those of the Audit Committee to ensure consistency.

NOMINATIONS COMMITTEE

The Nominations Committee oversees the composition of the board and makes recommendations to the board on various issues, such as director appointments to the MMI main and divisional boards, succession planning for the board and its committees and the appointment of members to board committees. The committee also plays a critical role in overseeing matters of corporate governance within the group. During the preceding year, the committee considered the results from the annual board and committee performance assessments and made various resultant decisions. In addition, the committee dealt with various governance matters such as a review of the composition of the board of directors and certain governance committees. These changes were subsequently implemented. The committee also approved the MMI Fit and Proper policy, which was developed as part of the SAM interim measures policies. The revised terms of reference for the committee were approved by the board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nominations Committee is responsible for identifying fit and proper candidates who could be appointed to the board, and evaluating them against the specific disciplines and areas of expertise required. The appointment, rotation, resignation and removal of directors are done in accordance with the company's constitution and the Companies Act. For more detail, please see the MMI Memorandum of Incorporation on the MMI website **www.mmiholdings.com**.

ETHICS

CODE OF CONDUCT

The group strategic human resources executive is responsible for the code of conduct and for ensuring that the requisite behaviour is aligned with MMI's values. The group code of conduct is available on the MMI website **www.mmiholdings.com**.

The code of conduct addresses, among others, the following areas:

- Commitment to regulatory compliance
- Prohibiting giving and receiving of bribes
- Prohibiting facilitation payments
- Guidelines on giving and receiving gifts
- Guidelines on political donations
- Dealing with conflicts of interest
- Other issues such as money laundering
- Prohibiting anti-competitive practices

REPORTING FRAUD

MMI has a number of business-specific KPMG fraud and ethics lines in place for the use of all stakeholders, eg employees, customers and authorities. In order to provide these stakeholders with as many different options as possible to report fraud, the following channels are available:

- KPMG fraud lines (anonymous if informant requests)
- Online reporting (anonymous if informant requests) via the intranet and the internet
- Direct contact with our investigators (we have offices in Port Elizabeth, Centurion, Durban and Cape Town)
- Through group internal audit and industrial relations

We have ensured that all the African subsidiaries have either a KPMG fraud line, a web reporting tool, or an alternative method of reporting fraud.

PROMOTION OF ACCESS TO INFORMATION ACT, 2 OF 2000

For the period under review, there were 14 requests for information, of which nine were granted, two were partially granted, two were not completed due to outstanding documentation and one was referred to the relevant division. No requests were declined.

INFORMATION TECHNOLOGY GOVERNANCE

MMI's business is critically dependent on its information systems and information technology (IT). To ensure proper governance and risk management of this key business function, Exco established the IT Steering Committee (ITSC) tasked with overseeing all MMI IT governance and the MMI IT strategy. The board is ultimately responsible for IT governance.

Key responsibilities of the ITSC include:

- Development of an MMI IT philosophy and IT strategy
- IT risk management and assurance
- Approval of major investments in technology (in collaboration with the board and divisional chief executive officers)
- IT performance measurement and worldwide IT trend analysis

The chairman of the ITSC is the chief operating officer, who is also a member of the Executive Risk Committee. All MMI's IT governance issues are reported to the Risk and Compliance Committee of the board through the ITSC. MMI has also appointed a chief technology officer (CTO) who takes ownership of and responsibility for the MMI IT philosophy and strategy. The CTO reports to the chief operating officer.

MANAGING IT RISKS

The ITSC provides executive oversight and review of MMI's IT risk profile by:

- Ensuring the MMI IT risk management framework is appropriately implemented within all divisions, group service areas and subsidiaries
- Ensuring that MMI management is aware of their responsibilities as they relate to IT risk management and the implementation of controls
- Ensuring the IT risk exposures of MMI and the effectiveness of IT risk management processes are appropriately managed
- Monitoring key corrective actions initiated by management and the IT risk management functions
- Reporting key IT risk exposures and the effectiveness of the management thereof to the Executive Risk Committee

BUSINESS DISRUPTION AND DISASTER RECOVERY

MMI's business continuity management (BCM) programme ensures that our business will be able to continue its critical business processes should a large-scale incident disrupt business activities. BCM testing and disaster recovery were conducted across the group during the year under review.

The programme is driven and owned by the divisions, with programme guidance, monitoring and reporting provided at group level. Annual activities performed as part of our BCM programme include:

- Updating our business impact analysis and recovery plans
- Reviewing our recovery strategy and plans
- Validating our recovery procedures by exercising them
- Ensuring awareness of BCM throughout the group
- Reporting on our BCM status and capability

COMPLIANCE

The MMI compliance function is responsible for the compliance strategy of the group and oversees the effective implementation of the MMI compliance risk management policy. It is also accountable to the board for reporting and managing identified compliance risks.

8

Number of board committees

Level 2

B-BBEE status

0

Number of material compliance breaches

The compliance function is an integral part of the wider MMI enterprise risk management function and reports to the chief risk officer and the board. The chief risk officer reports to the MMI chief executive officer.

No material compliance breaches were reported during the period under review. MMI offers a wide range of financial services and a large number of legislative requirements are applicable when conducting business.

The following proposed and current legislation will have or already has a significant impact on the business of MMI:

Legislation	Management
National health insurance (NHI)	Metropolitan Health is participating in industry discussions on this initiative and is considering its effect on MMI's health business.
Protection of Personal Information Act, 4 of 2013	MMI has convened various internal forums which are ensuring implementation of controls to meet the requirements of the Act.
Solvency Assessment and Management (SAM) regime	MMI participated in the various South African quantitative impact studies. Policies required to meet the interim measures posed by SAM have been identified, drafted and approved by the MMI board. MMI has a programme in place to measure ongoing progress to meet SAM requirements.
Treating Customers Fairly (TCF)	In support of the TCF initiative, MMI has revised its strategy and operating model to underpin its client-centric focus. The group is actively identifying opportunities to align products, services and client requirements.
Financial Services Laws General Amendment Act (Omnibus Act), 45 of 2013	The Act affects all financial institutions supervised by the Financial Services Board (FSB) and the South African Reserve Bank (SARB) and as such affects MMI. The Act aims to ensure that even during the transition to the "Twin Peaks" system, South Africa has a sounder and better regulated financial services industry, which promotes financial stability by strengthening the financial sector regulatory framework and enhancing the supervisory powers of the regulators. MMI was represented on the ASISA working group that gave input into the development of the legislation.
Draft Taxation Laws Amendment Bill, 2014 (DTLAB)	The DTLAB proposes that new risk business written by long-term insurers from 1 January 2016 be taxed on an operating profits basis in the corporate fund instead of in the relevant policyholder funds. MMI has reviewed the proposed legislation and are participating in industry groups who are lobbying to ensure that the proposed changes are equitable.

BOARD EVALUATION

In line with best practice and King III, MMI carried out an appraisal of the performance of the board, its committees and individual directors during July 2013. The appraisal was undertaken by means of a self-assessment questionnaire and was conducted over a three-week period. There was 100% participation by all the directors. In general, the appraisals revealed that the board and committees were performing well. Areas identified as requiring development were acknowledged and discussed at Nominations Committee and board level. The appraisal process is conducted annually and the next one is currently under way. This will be an external assessment of the board.

SHARE DEALING AND INSIDER TRADING

The group has developed and adopted a policy on dealings in MMI securities, which was approved at the board meeting held in November 2013. The policy was subsequently amended to include an addendum, which deals with disclosure by members of the Exco and key employees. In essence, the policy imposes closed periods to prohibit dealing in the company's shares before the announcement of interim and year-end financial results as well as in any other period considered price sensitive in accordance with the Listings Requirements of the JSE Ltd. All employees of the group are prohibited from trading in the listed company's shares during closed periods unless clearance to trade has been obtained from the group company secretary under the direction of the chairman of the board. The policy has been widely distributed within MMI to ensure that directors and employees are familiar with its content.

POLITICAL PARTY SUPPORT

MMI endorses all the principles and institutions that support a free and democratic society. However, it does not favour any political party.

FINANCIAL REPORTING

The group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are supported by reasonable judgements and estimates. The preparation is supervised by the group finance director, Preston Speckmann, BCompt (Hons), CA(SA). The directors are responsible for the financial statements of the group and the company, and are satisfied that they fairly present the financial position, performance and cash flows of the group and the company as at 30 June 2014. The external auditors are responsible for auditing the financial statements (see report on page 76). The embedded value statement is also subject to an independent review.

SHAREHOLDER COMMUNICATION

The group maintains highly rated standards of shareholder communication that are widely recognised by members of the investment community. Over and above the normal interim and full-year financial disclosure, the group also publishes quarterly financial updates that are distributed to all relevant parties.

DIRECTORS' INTERESTS

As a director of MMI's strategic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd, Vuyisa Nkonyeni has an interest in the contractual relationship between the two parties.

The following non-executive directors are also directors of RMI Holdings Ltd, a 24.5% shareholder in MMI Holdings Ltd: Leon Crouse, Johan Burger and Khehla Shubane.

DIRECTORS ' INDEPENDENCE

The board has considered the King III recommendations on independence of directors, as well as the provisions of the JSE Listings Requirements on the matter, and the individual status of the directors are recorded on pages 26 and 27.

The company complies with the King Code's recommendation of ensuring that the board comprises a majority of independent non-executive directors. The King Code's nine-year rule, which could possibly affect the independence of non-executive directors is not applicable. This is due to the nature of the group as well as the role and functions of the MMI Holdings board, which was constituted after the merger of Momentum and Metropolitan, that are substantially different from its predecessor. All directors were accordingly appointed to the MMI Holdings board with effect from 1 December 2010 – the effective date of the merger. It should be noted that MMI Holdings Ltd (previously Metropolitan Holdings Ltd) was incorporated on 21 December 2000.

DIRECTORS' SHAREHOLDINGS

The direct and indirect shareholdings and share dealings of the directors of MMI Holdings Ltd as at 30 June 2014 are set out on pages 52 and 53. Directors have access to the group's shares through the open market.

DELEGATION OF AUTHORITY

The board has delegated the authority for the management of the group to the MMI group chief executive officer by way of a framework for the delegation of authority. In delegating these powers, the board has imposed certain restrictions, conditions and limits that they believe to be appropriate for the effective exercise of such delegated powers. The chief executive officer has, in turn sub-delegated authority to the divisional chief executive officers and the head of support functions within MMI. The board reviews the delegation of authority regularly, and it is revised as deemed appropriate. The latest revision to the delegation of authority was considered at the board meeting held in June 2014. Despite having delegated power in this manner, it is still the ultimate duty of the board to monitor management's performance.

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2014

Listed shares	Direct beneficial '000	Indirect beneficial '000	To be delivered '000	Total '000
Nicolaas Kruger	64	315[1]	–[1]	379
Wilhelm van Zyl*	400			400
Johan Burger	12	942[1]	–[1]	954
Blignault Gouws*		210		210
Niel Krige		408		408
Syd Muller	8	42		50
Sizwe Nxasana			–[1,2]	–
Khehla Shubane		7		7
Frans Truter	44	433		477
Johan van Reenen		40		40
Total listed shares	**528**	**2 397**	**–**	**2 925**

Trades in MMI shares 2013/2014	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Sizwe Nxasana	2013-11-01	R24.60	1 116 166	Sale	Direct

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2013

Listed shares	Direct beneficial '000	Indirect beneficial '000	To be delivered '000	Total '000
Nicolaas Kruger	64		315[1]	379
Wilhelm van Zyl	400			400
Johan Burger	12	101	841[1]	954
Blignault Gouws		210		210
Niel Krige		408		408
Syd Muller	8	42		50
Sizwe Nxasana			1 116[1,2]	1 116
Khehla Shubane		7		7
Frans Truter	44	433		477
Johan van Reenen		40		40
Morris Mthombeni*	29			29
John Newbury*		75		75
Total listed shares	557	1 316	2 272	4 145

Trades in MMI shares 2012/2013	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Johan Burger	2012-09-17	R20.54	100 672	Sale	Direct
Syd Muller	2012-09-21	R20.67	42 043	Purchase	Indirect
Sizwe Nxasana	2012-09-26	R20.89	108 416	Sale	Direct
Frans Truter	2012-10-01	R19.99	12 500	Purchase	Indirect
Blignault Gouws	2013-06-13	R21.26	102 678	Sale	Indirect

* Resigned as director of MMI Holdings Ltd

[1] Unbundling linked to the FirstRand shares delivered November 2013 in terms of the FirstRand Executive Share Purchase Transaction and as announced on SENS, 7 February 2011

[2] Unbundled MMI shares delivered November 2013 resulting from the increased participation in the FirstRand Executive Share Purchase Transaction and as announced on SENS, 7 February 2011

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2014

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Nicolaas Kruger			
Wilhelm van Zyl*	8	64	72
Johan Burger		1 184	1 184
Blignault Gouws*		102	102
Jabu Moleketi	6	14	20
JJ Njeke	17		17
Sizwe Nxasana	7		7
Khehla Shubane		6	6
Frans Truter	21	145	166
Total listed shares	**59**	**1 515**	**1 574**

Trades in RMI shares 2013/2014	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Nicolaas Kruger	2013-10-23	R27.52	8 127	Sale	Direct
Blignault Gouws*	2013-09-10	R26.65	45 100	Purchase	Indirect
Jabu Moleketi	2013-09-25	R27.70	1 000	Sale	Direct
Jabu Moleketi	2014-03-31	R28.76	1 900	Sale	Direct

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2013

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Nicolaas Kruger	8		8
Wilhelm van Zyl	8	64	72
Johan Burger		1 184	1 184
Blignault Gouws		57	57
Jabu Moleketi	9	14	23
John Newbury*		37	37
JJ Njeke	17		17
Sizwe Nxasana	7		7
Khehla Shubane		6	6
Frans Truter	21	145	166
Total listed shares	**70**	**1 507**	**1 577**

Trades in RMI shares 2012/2013	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Jabu Moleketi	2012-12-18	R21.71	9 260	Purchase	Direct
Frans Truter	2012-09-26	R21.50	5 000	Purchase	Indirect
Blignault Gouws	2013-06-24	R23.19	57 345	Purchase	Indirect

* Resigned as director of MMI Holdings Ltd

[1] Unbundling linked to the FirstRand shares delivered November 2013 in terms of the FirstRand Executive Share Purchase Transaction and as announced on SENS, 7 February 2011

[2] Unbundled MMI shares delivered November 2013 resulting from the increased participation in the FirstRand Executive Share Purchase Transaction and as announced on SENS, 7 February 2011

MEMBERS OF THE MMI HOLDINGS LTD BOARD AND COMMITTEES

AS AT 30 JUNE 2014

Directors	Independent committee members	Audit	Actuarial	Remuneration	Social, Ethics and Transformation	Fair Practices	Risk and Compliance	Balance Sheet Management	Nominations
JJ Njeke (chairperson)									✓*
Johan Burger (deputy chairperson)								✓*	✓
Nicolaas Kruger (group CEO)			✓		✓	✓	✓	✓	
Wilhelm van Zyl** (deputy group CEO)			✓***						
Preston Speckmann (group finance director)							✓	✓	
Ngao Motsei (executive director)									
Leon Crouse								✓	
Fatima Jakoet		✓					✓*		✓
Niel Krige									
Jabu Moleketi					✓				
Syd Muller		✓			✓*				
Vuyisa Nkonyeni							✓		
Sizwe Nxasana				✓*					✓
Khehla Shubane					✓	✓•			
Frans Truter		✓*							✓
Ben van der Ross				✓	✓	✓*			
Johan van Reenen				✓			✓		
Louis von Zeuner•		✓•					✓•	✓•	
	Blignault Gouws		✓			✓			
	Stephen Jurisich		✓*						
	George Marx					✓			
	Jaco van der Walt							✓	
	Marli Venter†		✓†						

* Chairperson
** Resigned 30 June 2014
*** Resigned 14 March 2014
• Appointed 1 January 2014
† Appointed 19 June 2014

ATTENDANCE AT MEETINGS FROM 1 JULY 2013 TO 30 JUNE 2014

Directors	Holdings board	Audit	Actuarial	Remu-neration	Social, Ethics and Transfor-mation	Fair Practices	Risk and Compliance	Balance Sheet Manage-ment	Nomi-nations
Meetings held	**5**	**5**	**4**	**5**	**3**	**2**	**3**	**3**	**2**
Members	**Meetings attended**								
JJ Njeke	5*								2*
Johan Burger	5							2*	2
Nicolaas Kruger	5		3		2	2	3	1	
Wilhelm van Zyl**	4**		3***						
Preston Speckmann	5						3	2	
Ngao Motsei	4								
Leon Crouse	5							2	
Fatima Jakoet	5	5					3*		2
Niel Krige	5								
Jabu Moleketi	4				1				
Syd Muller	4	5			3*				
Vuyisa Nkonyeni	3						3		
Sizwe Nxasana	5			5*					2
Khehla Shubane	5				3	0•			
Frans Truter	4	5*							2
Ben van der Ross	5			5	3	2*			
Johan van Reenen	5			5			3		
Louis von Zeuner•	3•	1•					1•	1•	
Blignault Gouws#@	2		3			1		1	
Mary VilakaziΔ	2	3	4					2	
Stephen Jurisich#			4*						
George Marx#						2			
Jaco van der Walt#								3	
Marli Venter#			1†						

* Chairperson
** Resigned 30 June 2014
*** Resigned 14 March 2014
• Appointed 1 January 2014
† Appointed 19 June 2014
# Independent committee members
@ Blignault Gouws retired on 27 November 2013, as a result of which he resigned as a director on the MMI Holdings Ltd Board, as well as a member on the BSM Committee. He continues to serve on the Actuarial and Fair Practices Committees as an independent member.
Δ Mary Vilakazi resigned as a director on the MMI Holdings Ltd Board, and as a member of the Audit Committee on 27 November 2013. She continued to serve as an independent member on the Actuarial and BSM Committees until 30 April 2014 and, since being appointed in a MMI Executive capacity, serves as a management member since 1 May 2014.

MMI DIVISIONAL AUDIT PANELS AS AT 30 JUNE 2014

Directors	Momentum Retail	Metropolitan Retail	Momentum Investments	Metropolitan International	Metropolitan Health	Momentum Employee Benefits	Momentum Short-term Insurance
Preston Speckmann					✓		
Fatima Jakoet				✓	✓*	✓	
Syd Muller		✓		✓	✓		
Frans Truter	✓*	✓*	✓*	✓*		✓*	✓*
Louis von Zeuner							✓**
Ethel Matenge-Sebesho***			✓				

* Chairperson
** Appointed 1 January 2014
*** Independent member

MMI DIVISIONAL AUDIT PANELS ATTENDANCE AT MEETINGS FROM 1 JULY 2013 TO 30 JUNE 2014

Directors	Momentum Retail	Metropolitan Retail	Momentum Investments	Metropolitan International	Metropolitan Health	Momentum Employee Benefits	Momentum Short-term Insurance
Meetings held	**4**	**4**	**4**	**4**	**4**	**4**	**4**
Members	**Meetings attended**						
Preston Speckmann					4		
Fatima Jakoet				4	4*	4	
Syd Muller		4		4	4		
Frans Truter	4*	4*	4*	4*		4*	4*
Louis von Zeuner							1**
Mary Vilakazi[Δ]	4	4	3				
Ethel Matenge-Sebesho***			4				

* Chairperson
** Appointed 1 January 2014
*** Independent member
Δ Mary Vilakazi resigned as a director on the MMI Holdings Ltd Board, and as a member of the Audit Committee on 27 November 2013. She continued to serve as an independent member on the Divisional Audit Panels of Momentum Retail, Metropolitan Retail and Momentum Investments until 30 April 2014, and thereafter as a management member.

REMUNERATION REPORT

REMUNERATION POLICY

MMI's remuneration policy is one of the key components of the group's overall human resources (HR) strategy. It supports the HR strategy by helping to build a high-performance, values-driven culture with a view to capitalising on growth and expansion opportunities, raising the group's levels of innovation and entrenching its entrepreneurial approach to business. The full MMI remuneration policy is available on the MMI website **www.mmiholdings.com**.

KEY ELEMENTS OF MMI'S REMUNERATION POLICY

- The Remuneration Committee, which is responsible to the board, oversees the setting and administration of the remuneration policy, subject to constant monitoring and regular review. The full terms of reference of the committee are available on the MMI website **www.mmiholdings.com**. Directors' attendance at committee meetings is available on page 55. The activities of the committee for the period under review are detailed on pages 46 and 47.
- The remuneration policy is aligned with the overall business strategy, objectives and values of the group.
- Metrics to assess performance will take into account not only the level of achievement, but also the risks taken in achieving that level of performance, ie performance measures will be risk adjusted where appropriate.
- Employees are offered a competitive total remuneration package, benchmarked to the market.
- All remuneration (guaranteed and variable) is differentiated based on performance.
- Guaranteed remuneration is normally set at the median market level. However, it can be targeted at levels in the upper quartile for key positions where a premium is payable due to the scarcity and/or technical nature of skills.
- Three performance components are appraised, based on a robust performance management system – group, divisional and individual performance.
- Subjective and objective measures are used for individual performance appraisal purposes.
- The policy differentiates between level of accountability (related to the diversity and complexity of decisions made plus the degree of responsibility and/or level of authority involved in the job) and pay band (related to the going market rate for the particular job).
- Pay bands are broad and allow flexibility.
- Individuals are remunerated for their unique individual contribution (individual worth) as well as for their contribution to/collaboration in meeting team objectives.
- The short-term incentive (or performance bonus) scheme is used to promote goal attainment (mutually agreed, strategically aligned outcomes/targets that contribute to the successful implementation of the group's strategic business plans) over a one-year period.
- A long-term incentive plan focuses on the realisation of the group's vision for the future and aligning performance with longer-term value-adding objectives over a three-year period.
- Pay-for-performance incentive systems have also been instituted based on predefined quantitative and qualitative measures.
- The remuneration of employees in the risk and compliance function is determined independently of the various divisions in MMI, with performance measures based principally on the achievement of their function's current objectives.

MMI'S SHORT-TERM INCENTIVE (PERFORMANCE BONUS) SCHEME

The group's key short-term incentive scheme is a non-guaranteed performance bonus, paid annually as a percentage of an individual's total guaranteed remuneration package.

WHY A PERFORMANCE BONUS?

- Performance bonuses are awarded for the attainment of pre-set, business-aligned performance objectives.
- Bonuses serve as both motivation and reward for scheme participants who achieve or exceed these performance objectives.

WHO QUALIFIES FOR A PERFORMANCE BONUS?

- Only employees with a high level of accountability are eligible to participate in the performance bonus scheme.
- Other high-performing employees are eligible for participation in a budgeted short-term incentive payment pool, based on a percentage of the total payroll.

WHAT PERFORMANCE OBJECTIVES HAVE TO BE MET?

- Performance objectives are set at three levels: group, divisional and individual.
- To strengthen the link between pay and individual performance, strategic objectives, as set out in the group and divisional operating plans, are translated into personal goals, including knowledge, skills and competence to be acquired.
- Personal goals are agreed upfront, ie at the start of each performance period.

WHO APPROVES THE PERFORMANCE OBJECTIVES?

- All group targets have to be approved by the Remuneration Committee of the board.
- Individual goals/targets have to be agreed with the employee's line manager or team leader.

HOW IS PERFORMANCE APPRAISED?

- The group and divisional components of performance are appraised based on a balanced scorecard comprising metrics of a financial and non-financial nature. The same metrics apply in part to individual performance in line with the individual's level of accountability.

- Group performance is evaluated by the Remuneration Committee, divisional performance by the group chief executive officer and individual performance in terms of MMI's performance management system.

HOW ARE PERFORMANCE BONUSES PAID?

Provided all relevant group, divisional and personal performance criteria are met, performance bonuses are determined annually and paid as set out below:

- Performance bonuses are not guaranteed.
- Performance bonuses above a certain threshold level are paid out in two tranches, depending on the overall amount involved. Bonuses below the threshold level are paid in cash by way of a lump sum payment once the bonus has been determined.
- Performance bonuses above a certain second threshold are paid out in three tranches with a percentage of the final tranche deferred into retention units of the long-term incentive plan, vesting after two years.
- Bonus amounts not yet paid can be withheld if the performance of the group, division or individual deteriorates significantly prior to the payout dates of the remaining tranches.

BALANCED SCORECARD

The balanced scorecard incorporates five key performance indicators/metrics, all of which are reviewed annually.

For 2014, the following metrics applied:

- Three financial metrics
  - Core headline earnings
  - Return on embedded value (ROEV)
  - Embedded value (EV) of new business
- Two non-financial metrics
  - Strategic projects
  - Transformation (FSC scorecard)

A five-point rating scale is used to assess performance:

1 = underperformance,
2 = threshold performance,
3 = target performance,
4 and 5 = outperformance.

MMI's scorecard contains the group's objectives. In addition to that, each division has its own scorecard that aligns with the group scorecard, but contains division-specific targets and objectives.

Meeting the group's objectives is paramount. Performance against the group's targets determines the size of the aggregate bonus pool. The performance of each division against its scorecard determines how the aggregate bonus pool is allocated between divisions.

SHORT-TERM INCENTIVE SCHEME (PERFORMANCE OVER THE YEAR)

KPI	Weight	F2014 target	Actual	Achieved
Return on embedded value (ROEV)	20%	11%	16%	Target exceeded
Core headline earnings	25%	11% growth	12%	Target achieved
Value of new business (VNB)	20%	R756m	R779m	Target achieved
Transformation	15%	FSC score of 75	79	Target achieved
Strategic initiatives	20%	Internal assessment Refer to list below		Target achieved

STRATEGIC INITIATIVES

- Products
  - Launch MMI's new short-term insurance offering in South Africa
  - Launch the first products for the middle-income segment in South Africa
- Clients
  - Commence the implementation of MMI's client-centric strategy and operating model
- Growth and diversification
  - Further develop geographical diversification by implementing acquisition and other strategies in Africa, finalising the business case and operating model in India, and investigating opportunities in Southeast Asia
- Culture
  - Develop and nurture a culture of innovation and collaboration

NON-FINANCIAL METRICS

STRATEGIC PROJECTS

These strategic initiatives have been identified as essential to the ongoing success of MMI. They have been included to ensure that the focus of the scorecard is not exclusively on short-term profitability but gives due recognition to initiatives expected to add value over the longer term by improving the group's strategic positioning in areas other than purely financial.

OVERALL B-BBEE SCORECARD

The Financial Sector Charter (FSC) takes into account the various pillars of broad-based black economic empowerment, including all labour and transformation-related policies and practices: eg ownership, employment equity, skills development, procurement, socio-economic development and enterprise development.

SHORT-TERM INCENTIVE PAYMENTS (FOR OPERATIONAL EMPLOYEES)

These payments have been instituted to motivate employees with lower levels of functional accountability who are not eligible to participate in the performance bonus scheme to exceed performance expectations.

- Only high performance and/or consistent outperformance is recognised and rewarded.
- Payments are made from a budgeted pool, based on a percentage of the total guaranteed remuneration packages of all employees and not on group or divisional performance.

LONG-TERM INCENTIVE PLAN (LTIP)

- The purpose of the LTIP is to attract, motivate, reward and thus help to retain employees who are able to influence the performance of the group on a basis that aligns their interests with those of the group's shareholders.
- The LTIP is a cash-settled share scheme. Participants are paid a cash bonus calculated using the value of an MMI Holdings Ltd share on the JSE.
- Each tranche of shares (allocated on an annual basis) contains a combination of performance (acting as a performance driver) and retention (acting as a retention mechanism) units, all of which vest after three years.
- For each tranche of shares, performance criteria are measured and averaged over the three-year vesting period, thus eliminating short-term fluctuations and focusing on long-term value creation.
- The primary metric under the LTIP is the group's ROEV, measured against the country's growth in gross domestic product (nominal GDP) and against the average ROEV achieved over the three years by the five largest insurance groups in South Africa. The targeted ROEV is nominal GDP growth + 3% per annum, and the maximum additional vesting due to the outperformance of the peer group is 150% of the allocated performance units.
- Vesting rates of the performance units are determined according to three cut-off points: threshold performance, target performance and outperformance.
- The Remuneration Committee may, in its sole discretion, waive or amend the performance criteria for performance units should extraordinary circumstances arise.
- If the Remuneration Committee deems it appropriate, the performance criteria for the award of future performance

units may be different, taking into account the prevailing economic conditions.

LONG-TERM INCENTIVE SCHEME (PERFORMANCE TO DATE)

Return on embedded value	Target (GDP+3%)	Actual*
Tranche 1 (2011 to 2014) Annualised performance for the period 1 July 2011 to 30 June 2014	10.8%	16.3%
Tranche 2 (2012 to 2015) Annualised performance for the period 1 July 2012 to 30 June 2014	10.5%	18.9%
Tranche 3 (2013 to 2016) Annualised performance for the period 1 July 2013 to 30 June 2014	10.8%	20.4%

* Average annualised percentages, measured since inception of each tranche up to 30 June 2014.

DISCLOSURE OF DIRECTORS' REMUNERATION

King III and the Companies Act require that the individual remuneration of all prescribed officers should be disclosed. The identified prescribed officers of MMI are Nicolaas Kruger, Ngao Motsei, Preston Speckmann and Wilhelm van Zyl. Their remuneration is set out on pages 62 and 63.

Details of the remuneration of executive and non-executive directors are provided on pages 62 and 63.

DIRECTOR'S EMOLUMENTS

Non-executive directors are paid an all-inclusive retainer, which is annually benchmarked by participation in various market surveys. The non-executive directors' fees are not linked to the performance of the company in any way.

DIRECTORS' EMOLUMENTS

Directors	Months		Fees R'000		Salary R'000		Performance bonus R'000	
	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013
Nicolaas Kruger	**12**	12			**5 082**	4 795	**7 104**	6 333
Wilhelm van Zyl[2]	**12**	12			**4 695**	4 100	**6 256**	5 573
Preston Speckmann	**12**	12			**3 270**	2 972	**3 798**	3 455
Ngao Motsei	**12**	7			**1 897**	1 618	**2 027**	1 405
Morris Mthombeni[3]	**–**	2			**4 107**	3 037		
Johan Burger	**12**	12	**1 043**	1 292				
Leon Crouse	**12**	12	**652**	794				
Blignault Gouws[4]	**5**	12	**868**	1 255				
Fatima Jakoet	**12**	12	**1 456**	1 626				
Niel Krige	**12**	12	**543**	747				
Jabu Moleketi	**12**	12	**683**	751				
Syd Muller	**12**	12	**1 215**	1 495				
John Newbury	**–**	5	**–**	473				
JJ Njeke	**12**	12	**1 604**	2 013				
Vuyisa Nkonyeni	**12**	12	**739**	840				
Sizwe Nxasana	**12**	12	**839**	683				
Khehla Shubane	**12**	12	**614**	747				
Frans Truter	**12**	12	**2 249**	2 569				
Ben van der Ross	**12**	12	**1 097**	1 479				
Johan van Reenen	**12**	12	**850**	924				
Mary Vilakazi[5]	**5**	12	**907**	1 600				
Louis von Zeuner[6]	**6**	–	**518**	–				
			15 877	19 288	**19 051**	16 522	**19 185**	16 766

1 Share-based payment charge relating to the group's existing shares schemes for the period. This will be reflected under long-term incentive payments when paid.
2 Resigned 30 June 2014
3 Resigned 31 August 2012 (Included in the salary figure is a loss of office payment of R4 106 521)
4 Retired 27 November 2013
5 Resigned 27 November 2013
6 Appointed 1 January 2014

The group directors and prescribed officers are all remunerated by MMI Holdings Limited.

Long-term incentive payments R'000		Pension fund R'000		Total R'000	
June 2014	June 2013	June 2014	June 2013	June 2014	June 2013
12 339	8 241	**298**	395	**24 823**	19 764
12 364	6 598	**343**	509	**23 658**	16 780
7 728	3 265	**207**	311	**15 003**	10 003
–	–	**288**	258	**4 212**	3 281
–	3 765	**–**	194	**4 107**	6 996
				1 043	1 292
				652	794
				868	1 255
				1 456	1 626
				543	747
				683	751
				1 215	1 495
				–	473
				1 604	2 013
				739	840
				839	683
				614	747
				2 249	2 569
				1 097	1 479
				850	924
				907	1 600
				518	–
32 431	21 869	**1 136**	1 667	**87 680**	76 112

Share-based payment charge[1] R'000	
June 2014	June 2013
14 550	8 163
11 151	9 057
6 539	5 195
2 796	1 006
35 036	23 421

EXECUTIVE DIRECTORS' INCENTIVISATION

	MomCSP*	MetLTRS**		MMI LTRAS***		
	N Kruger '000	W van Zyl '000	P Speckmann '000	N Kruger '000	W van Zyl '000	P Speckmann '000
Units in force at 1 July 2012	447	313	155	458	489	305
Granted at prices ranging between (cents)	–	1 340	1 340	–	–	–
Units granted during year	–	5	2	–	–	–
Units exercised/released during year	(417)	(318)	(157)	–	–	–
Market value of range at date of exercise/release (cents)	1 959 – 2 149	2 074	2 074	–	–	–
Units in force at 30 June 2013	30	–	–	458	489	305
Units granted during year	–	–	–	–	–	–
Units exercised/released during year	**(30)**	–	–	**(458)**	**(489)**	**(305)**
Market value of range at date of exercise/release (cents)	**2 515**			**2 530**	**2 530**	**2 530**
Units in force at 30 June 2014	–	–	–	–	–	–

Units outstanding (by expiry date) for the MMI LTIP are as follows:

	N Kruger		W van Zyl		P Speckmann		N Motsei	
2014	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000
Financial year 2014/2015	**61**	**399**	**51**	**268**	**36**	**146**	**19**	**77**
Financial year 2015/2016	**53**	**359**	**45**	**240**	**33**	**130**	**19**	**76**
Financial year 2016/2017	**48**	**317**	**41**	**212**	**29**	**115**	**28**	**114**
Total outstanding shares	**162**	**1 075**	**137**	**720**	**98**	**391**	**66**	**267**
2013								
Financial year 2014/2015	61	399	51	268	36	146	19	77
Financial year 2015/2016	51	343	44	230	32	125	18	73
Total outstanding shares	112	742	95	498	68	271	37	150

Units outstanding (by expiry date) for the MomCSP are as follows:

2013	N Kruger '000
Financial year 2013/2014	30
Total outstanding shares	30

Units outstanding (by expiry date) for the MMI LTRAS are as follows:

2013	N Kruger '000	W van Zyl '000	P Speckmann '000
Financial year 2013/2014	458	489	305
Total outstanding shares	458	489	305

* Momentum Conditional Share Plan.
** Metropolitan Long-term Replacement Scheme.
*** MMI Long-term Retention Award Scheme.
**** MMI Long-term Incentive Plan.

For more detail please refer to note 21.2(e) on pages 169 to 173.

MMI LTIP****							
N Kruger		W van Zyl		P Speckmann		N Motsei	
Retention units ’000	Performance units ’000	Retention units ’000	Performance units ’000	Retention units ’000	Performance units ’000	Retention units ’000	Performance units ’000
61	399	51	268	36	146	19	77
–	–	–	–	–	–	–	–
51	343	44	230	32	125	18	73
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
112	742	95	498	68	271	37	150
50	**333**	**42**	**222**	**30**	**120**	**29**	**117**
–	–	–	–	–	–	–	–
162	**1 075**	**137**	**720**	**98**	**391**	**66**	**267**

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2014.

The Audit Committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the Audit Committee by the board of directors of the company. This report includes both sets of duties and responsibilities.

COMPOSITION AND PROCEEDINGS

The MMI Audit Committee was fully functional during the financial year, and continued to discharge its responsibility with the support of the divisional audit and risk panels. The divisional audit and risk panels report to the MMI Audit Committee on a quarterly basis. The Audit Committee includes representatives of the divisional audit and risk panels and is composed of independent non-executive directors.

In addition, the chief executive officer and the group finance director attend Audit Committee meetings. The external and internal auditors attend Audit Committee meetings by invitation. The external and internal auditors meet independently with the Audit Committee when required.

TERMS OF REFERENCE

The Audit Committee has terms of reference, which were approved by the board. The Audit Committee has regulated its affairs in compliance with the terms of reference and has discharged its responsibilities accordingly.

The terms of reference, including roles and responsibilities, were aligned with the requirements of King III, the Companies Act and other regulatory requirements. In instances where King III principles and requirements have not been applied, these have been explained in the corporate governance statement, included on page 45 of the integrated report.

EXTERNAL AUDIT

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

The Audit Committee has approved a policy for the provision of non-audit services. Fees paid to the external auditors are disclosed in note 34 to the annual financial statements on page 178.

The Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Ms Alsue du Preez as the designated auditor responsible for performing the function of auditor for the 2014 year. The Audit Committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisors.

INTERNAL AUDIT

The Audit Committee is responsible for ensuring the internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The head of internal audit has a functional reporting line to the Audit Committee chairman, and an operational reporting line to the group finance director. The MMI chief audit executive resigned during the period under review, and the finance director, Preston Speckmann, is currently managing this portfolio until a new candidate is appointed.

Internal audit operates according to the internal audit charter, which was approved by the board. The risk-based internal audit plan for the 2015 financial year was approved by the committee on 26 May 2014.

The Audit Committee is also responsible for the assessment of the performance of the chief audit executive and the internal audit function.

The group implemented a combined assurance methodology, and the results were reported to the Audit Committee.

INTERNAL FINANCIAL CONTROLS (IFC)

A high-level review of the design, implementation and effectiveness of the combined group's IFC was performed in all material divisions. The IFC review provides comfort on the financial reporting controls, which are relied on for the preparation and presentation of the annual financial statements.

Nothing has come to the attention of the Audit Committee to indicate a material breakdown in the IFC during the financial year. This assessment was based on the results of the documented review noted above, information and explanations given by management and the group internal audit function, as well as discussions with the independent external auditors on the results of their audits.

GROUP FINANCE DIRECTOR

The Audit Committee has satisfied itself that the group finance director has appropriate expertise and experience.

GOVERNANCE OF RISK

The board has assigned oversight of the company's risk management function to the Risk and Compliance Committee. The chairperson of the Risk and Compliance Committee is also a member of the Audit Committee to ensure that information relevant to these committees is transferred effectively. The Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting.

INTEGRATED REPORT

The Audit Committee has reviewed the integrated report of the group for the year ended 30 June 2014 and submits that management presented an appropriate view of the group's position and performance. The Audit Committee considers that the group accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards (IFRS).

SUSTAINABILITY

MMI is fully committed to good sustainability principles. The group strives to be financially sound, socially responsible and environmentally friendly, with good corporate governance as the overarching principle. In this regard, MMI supports the recommendations as set out in King III. For further information, please refer to the MMI website **www.mmiholdings.com**.

GOING CONCERN

The Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 75 of the integrated report.

MEETINGS AND EFFECTIVENESS REVIEW

Number of meetings held	5
Members' attendance	
Fatima Jakoet	5
Syd Muller	5
Frans Truter*	5
Mary Vilakazi**	2
Louis von Zeuner***	2

* Chairman
** Resigned 27 November 2013
*** Appointed 1 January 2014

During the year under review, the effectiveness of the Audit Committee was assessed by the Audit Committee members, and the results were shared with the board. The Audit Committee confirms that it discharged its duties and responsibilities in accordance with the terms of reference for the year under review.

FRANS TRUTER
CHAIRMAN OF THE AUDIT COMMITTEE

9 September 2014

Momentum Retail

DISTRIBUTION

- > 6 000 external independent brokers
- 400 tied agents

PROFIT DRIVERS

- Sales volumes and mix
- Persistency
- Expense management
- Mortality experience
- Investment performance
- Client service levels

STRATEGY AND PRODUCTS

Targeting the middle to upper-income market in South Africa and offering innovative and appropriate wealth creation, risk and savings products.

FOCUS AREAS

- Value of new business
  - Quality of business
  - Business mix
  - Grow recurring premiums
- Increase distribution
  - New distribution initiatives
  - Grow agency force
- Financial Wellness
- Emphasis on innovation
- Increase penetration in the middle-income market

FOCUS AREAS

- Process and systems renewal
- Diversify and grow distribution
  - Partnership strategies
  - Mastering distribution initiative
  - Embed segmentation insights
- Expense and persistency management
- Existing customer optimisation

METROPOLITAN

Metropolitan Retail

STRATEGY AND PRODUCTS

Targeting the lower to middle-income market in South Africa, and offering savings, income generation and income protection (risk) products.

DISTRIBUTION CHANNELS

- > 100 sales offices countrywide
- 4 call centres
- 5 459 agents
- 1 742 brokers

PROFIT DRIVERS

- Volume and mix of new business
- Persistency
- Expense management
- Mortality
- Investment performance

momentum

Momentum Employee Benefits

SOURCES OF BUSINESS

- Brokerages
- Government
- Parastatals
- Trade unions

PROFIT DRIVERS

- Asset-based charges on investment and annuity business
- Risk business margins
- Fee income on administration business
- Operational efficiencies

FOCUS AREAS

- Optimise distribution
- Align Guardrisk with the group
- Entrench position as leading incapacity insurer
- Close collaboration with health operations
- Strengthen brand presence in target markets
- Product innovation

STRATEGY AND PRODUCTS

Specialises in and offers:

- Income replacement benefits
- Liability management
- Administration and investment solutions for retirement funds, including:
  - Large corporate and public sectors
  - SMME market segments
- Marketing Momentum Medical Open Scheme
- Specialised insurance solutions

FOCUS AREAS

- Integration of newly acquired Cannon Assurance (Kenya)
- Acquisitions complementary to growth initiatives
- Top-line growth in all lines of business
- Implement mass-market initiatives
- Product innovation and diversification
- Support centre efficiencies

METROPOLITAN

Metropolitan International

STRATEGY AND PRODUCTS

Providing retail and institutional customers in Africa with:

- Risk, savings and investment products
- Retirement fund administration
- Health insurance products and administration
- Short-term insurance

RATIONALE FOR AFRICAN EXPANSION

- Diversify earnings
- Higher GDP growth than South Africa
- Low penetration of insurance
- Growth opportunities

DISTRIBUTION CHANNELS

- Brokers
- Employed agents
- Unions
- Co-operatives
- Mobile operators
- Internal employees

momentum

Momentum Investments

PROFIT DRIVERS

- Investment performance
- Asset-based fees
- Operational efficiencies
- Assets under management size and mix

STRATEGY AND PRODUCTS

Provide full spectrum of investment services in South Africa, Africa and selected international markets:

- Active and passive investment management (local and international)
- Alternative investment management
- Multi-management
- Collective investment scheme management
- Property investment management

FOCUS AREAS

- Superior investment performance
- Developing solutions-based client value propositions
- Develop strong client relationships
- Invest in growth initiatives and expand capabilities
- Optimising efficiencies and systems integration

METROPOLITAN

Metropolitan Health

STRATEGY AND PRODUCTS

Preferred provider for public sector and corporate clients, offering:

- Healthcare administration to closed schemes
- Health risk management
- Supplementary healthcare products

FOCUS AREAS

- Diversify income streams
- Retain and expand current business
- Improve margin conversion and service delivery
- Corporate market collaboration to leverage health expertise
- Build a public private partnership framework

PROFIT DRIVERS

- **Fee income per member/month**
- **Economies of scale**
- **Expense management**
- **Service delivery**

MMI HOLDINGS LTD GROUP ANNUAL FINANCIAL STATEMENTS 30 JUNE 2014

CONTENTS

The preparation of the group's audited consolidated results was supervised by the group finance director, Preston Speckmann, BCompt (Hons), 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 76.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 94 to 264, were approved by the board of directors on 9 September 2014 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 9 September 2014

Nicolaas Kruger
Group chief executive officer
Centurion, 9 September 2014

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 2014 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, 9 September 2014

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF MMI HOLDINGS LTD

We have audited the consolidated financial statements and financial statements of MMI Holdings Ltd set out on pages 102 to 264, which comprise the consolidated and separate statements of financial position as at 30 June 2014, the consolidated and separate income statements and consolidated and separate statements of comprehensive income, changes in equity and 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 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 2014, 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 2014, 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 financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered auditor
Sunninghill, 9 September 2014

DEFINITIONS

Adjusted net worth (ANW)

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

Advisory practice notes (APNs)

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.

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. 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.

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

DEFINITIONS *CONTINUED*

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' value of the investment management, South African health administration, short-term insurance operations of the group, Guardrisk as well as the group holding companies. The value of group holding companies is adjusted for the value of future holding company net operating profits/losses, which have not been allowed for elsewhere in the group EV calculations.

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 actuarial values of assets and liabilities.

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 2014, as set out on pages 81 to 93 (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 102 to 264. The report is prepared for the purpose of setting out the embedded value of the group for the year ended 30 June 2014. 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 81 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. The scope of the review is substantially less than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to identify all significant matters as might be the case 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 81 to the report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to page 81 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 2014. 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 2014 provided it is clearly understood by the recipients of the integrated report that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered auditor
Sunninghill, 9 September 2014

REPORT ON GROUP EMBEDDED VALUE

AT 30 JUNE 2014

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 – FNB Life

The contractual agreement between MMI and FirstRand Bank was changed with effect from 1 July 2013, reducing MMI's profit-sharing arrangement from 10% to 4%. As a result, the value of new business and value of in-force of this FNB Life business has been excluded from the published MMI embedded value with effect from 1 July 2013. The profits arising from this business will therefore only be recognised in the embedded value earnings as they emerge. The prior year figures have not been restated as the change occurred during the current reporting year.

REPORT ON GROUP EMBEDDED VALUE *CONTINUED*

AT 30 JUNE 2014

EMBEDDED VALUE RESULTS AS AT 30 JUNE	2014 Rm	2013 Rm
Covered business		
Reporting excess – long-term insurance business	**17 392**	16 925
Reclassification to non-covered business	**(1 459)**	(1 482)
	15 933	15 443
Disregarded assets[1]	**(682)**	(693)
Difference between statutory and published valuation methods	**(571)**	(551)
Dilutory effect of subsidiaries[2]	**(34)**	(26)
Consolidation adjustments[3]	**(77)**	(36)
Value of MMI Group Ltd preference shares issued	**(500)**	(500)
Diluted adjusted net worth – covered business	**14 069**	13 637
Net value of in-force business[4]	**20 324**	17 870
Diluted embedded value – covered business	**34 393**	31 507
Non-covered business		
Net assets – non-covered business within life insurance companies	**1 459**	1 482
Net assets – non-covered business outside life insurance companies	**2 999**	1 547
Consolidation adjustments and transfers to/from covered business[3]	**(2 291)**	(1 011)
Adjustments for dilution[5]	**720**	698
Diluted adjusted net worth – non-covered business	**2 887**	2 716
Write-up to directors' value	**2 395**	925
Non-covered business[6]	**4 188**	2 543
Holding company expenses[7]	**(1 383)**	(1 208)
International holding company expenses[7]	**(410)**	(410)
Diluted embedded value – non-covered business	**5 282**	3 641
Diluted adjusted net worth	**16 956**	16 353
Net value of in-force business	**20 324**	17 870
Write-up to directors' value	**2 395**	925
Diluted embedded value	**39 675**	35 148
Required capital – covered business (adjusted for qualifying debt and preference shares)[8]	**7 039**	8 620
Surplus capital – covered business	**7 030**	5 017
Diluted embedded value per share (cents)	**2 474**	2 191
Diluted adjusted net worth per share (cents)	**1 057**	1 020
Diluted number of shares in issue (million)[9]	**1 604**	1 604

1 Disregarded assets include Sage intangible assets of R546 million (2013: R562 million), goodwill and various other items.

2 For accounting purposes, Metropolitan Health has been consolidated at 100%, while MMI Holdings Namibia and Metropolitan Kenya 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.

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

4 The FNB Life value of in-force is excluded from the embedded value from 1 July 2013. The FNB Life net value of in-force amounted to R91 million at 30 June 2013.

5 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 2): R102 million (2013: R119 million)
- Treasury shares held on behalf of contract holders: R305 million (2013: R266 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R313 million (2013: R313 million)

6 Guardrisk is included as part of non-covered business at 30 June 2014.

7 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.

8 The required capital for covered business amounts to R10 114 million (2013: R10 182 million) and is adjusted for qualifying debt of R3 075 million (2013: R1 562 million).

9 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	2014 Rm	2013 Rm
Momentum Retail	**9 674**	8 967
Gross value of in-force business	**11 212**	10 490
Less: cost of required capital	**(1 538)**	(1 523)
Metropolitan Retail[1]	**3 738**	3 555
Gross value of in-force business	**4 445**	4 312
Less: cost of required capital	**(707)**	(757)
Momentum Employee Benefits	**4 242**	3 106
Gross value of in-force business	**4 892**	3 776
Less: cost of required capital	**(650)**	(670)
Metropolitan International	**1 832**	1 659
Gross value of in-force business	**2 006**	1 772
Less: cost of required capital	**(174)**	(113)
Shareholder Capital	**838**	583
Gross value of in-force business[2]	**838**	583
Less: cost of required capital	**–**	–
Net value of in-force business	**20 324**	17 870

[1] The FNB Life value of in-force is excluded from the embedded value from 1 July 2013. The FNB Life net value of in-force amounted to R91 million at 30 June 2013.

[2] The value of in-force in Shareholder Capital represents discretionary margins managed centrally by Balance sheet management.

Introduction

At a glance

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EMBEDDED VALUE PER DIVISION	Adjusted net worth Rm	Net value of in-force Rm	2014 Rm	2013 Rm
Covered business				
MMI Group Ltd[1]	12 503	18 491	**30 994**	28 652
Metropolitan Odyssey Ltd	59	–	**59**	49
Metropolitan International	1 507	1 833	**3 340**	2 806
MMI Holdings Namibia Ltd	551	1 242	**1 793**	1 523
Metropolitan Life of Botswana Ltd	202	139	**341**	266
Metropolitan Lesotho Ltd	349	434	**783**	655
Other international businesses	405	18	**423**	362
Total covered business	14 069	20 324	**34 393**	31 507

	Adjusted net worth Rm	Write-up to directors' value Rm	2014 Rm	2013 Rm
Non-covered business				
Momentum Investments[2]	839	1 089	**1 928**	1 746
Health businesses[3]	329	1 432	**1 761**	1 662
Momentum Retail (Wealth)[4]	355	300	**655**	379
Guardrisk business[5]	431	1 176	**1 607**	–
Momentum Short-term Insurance (MSTI)	150	169	**319**	300
Metropolitan International Holdings[6]	2	(388)	**(386)**	(285)
MMI Holdings Ltd (after consolidation adjustments)[6]	781	(1 383)	**(602)**	(161)
Total non-covered business	2 887	2 395	**5 282**	3 641
Total embedded value	16 956	22 719	**39 675**	35 148
Diluted adjusted net worth – non-covered business	(2 887)			
Adjustments to covered business – adjusted net worth	3 323			
Reporting excess – long-term insurance business	17 392			

1 The FNB Life value of in-force is excluded from the embedded value from 1 July 2013. The FNB Life net value of in-force amounted to R91 million at 30 June 2013.

2 Momentum Investments subsidiaries are valued using forward price-earnings multiples applied to the relevant sustainable earnings bases.

3 All Health businesses have been valued using embedded value methodology.

4 Momentum Retail (Wealth) has been valued using embedded value methodology.

5 Guardrisk has been valued using embedded value methodology.

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.

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business ANW Rm	Covered business Gross VIF Rm	Covered business Cost of CAR Rm	12 months to 30.06.2014 Total EV Rm	12 months to 30.06.2013 Total EV Rm
Profit from new business		(1 273)	2 316	(168)	**875**	799
Embedded value from new business	A	(1 273)	2 221	(169)	**779**	711
Expected return to end of period	B	–	95	1	**96**	88
Profit from existing business		3 690	(715)	253	**3 228**	3 336
Expected return – unwinding of risk discount rate	B	–	2 078	(292)	**1 786**	1 487
Release from the cost of required capital	C	–	–	407	**407**	417
Expected (or actual) net of tax profit transfer to net worth	D	3 523	(3 523)	–	**–**	–
Operating experience variances	E	396	139	9	**544**	912
Operating assumption changes	F	(229)	591	129	**491**	520
Embedded value profit from operations		2 417	1 601	85	**4 103**	4 135
Investment return on adjusted net worth	G	1 063	–	–	**1 063**	919
Investment variances	H	213	1 130	(65)	**1 278**	1 011
Economic assumption changes	I	(15)	(279)	(27)	**(321)**	(221)
Take-on of covered business		–	–	–	**–**	89
Exchange rate movements		(7)	4	1	**(2)**	39
Embedded value profit – covered business		3 671	2 456	(6)	**6 121**	5 972
Transfer of business (to)/from non-covered business	J	(10)	4	–	**(6)**	267
Changes in share capital		42	–	–	**42**	37
Dividend paid		(3 271)	–	–	**(3 271)**	(3 140)
Change in reserves		–	–	–	**–**	(22)
Change in embedded value – covered business		432	2 460	(6)	**2 886**	3 114
Non-covered business						
Change in directors' valuation and other items					**718**	131
Holding company expenses					**(175)**	(455)
Embedded value profit – non-covered business					**543**	(324)
Changes in share capital					**(42)**	(37)
Dividend paid					**1 179**	236
Finance costs – preference shares					**(45)**	(46)
Transfer of business from/(to) covered business	J				**6**	(267)
Change in embedded value – non-covered business					**1 641**	(438)
Total change in group embedded value					**4 527**	2 676
Total embedded value profit					**6 664**	5 648
Return on embedded value (%) – internal rate of return					**19.0**	17.4

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
- renewable recurring premiums under group insurance contracts are treated as in-force covered business

RECONCILIATION OF LUMP SUM INFLOWS	12 months to 30.06.2014 Rm	Restated 12 months to 30.06.2013 Rm
Total lump sum inflows	**29 790**	34 402
Inflows not included in value of new business	**(8 246)**	(17 219)
Momentum Retail	**(200)**	(181)
Momentum Employee Benefits	**(1 715)**	(170)
Metropolitan International	**(46)**	(37)
Momentum Investments	**(6 262)**	(16 819)
Balance sheet management	**(23)**	(12)
Term extensions on maturing policies	**465**	610
Non-controlling interests and other adjustments	**(17)**	55
Single premiums included in value of new business	**21 992**	17 848

[1] June 2013 has been restated to reconcile from on-balance sheet single lump sum inflows instead of total lump sum inflows.

VALUE OF NEW BUSINESS 12 months to 30.06.2014	Momentum Retail Rm	Metropolitan Retail[1] Rm	Momentum Employee Benefits Rm	Metropolitan 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**	**2 584**	**6 384**	**541**	**25 457**
Recurring premiums	**1 022**	**1 083**	**1 033**	**327**	**3 465**
Single premiums	**14 926**	**1 501**	**5 351**	**214**	**21 992**
New business premiums (APE)	**2 515**	**1 233**	**1 568**	**348**	**5 664**
New business premiums (PVP)	**20 434**	**5 372**	**14 491**	**1 866**	**42 163**
Profitability of new business as a percentage of APE	**9.5**	**19.1**	**16.2**	**14.1**	**13.8**
Profitability of new business as a percentage of PVP	**1.2**	**4.4**	**1.8**	**2.6**	**1.8**

VALUE OF NEW BUSINESS 12 months to 30.06.2013	Momentum Retail Rm	Metropolitan Retail[1] Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm	Metropolitan Retail (excl. FNB Life)[1] Rm	Comparative Segmental total (excl. FNB Life) Rm
Value of new business	203	239	213	56	**711**	209	**681**
Gross	268	268	275	63	**874**	238	**844**
Less: cost of required capital	(65)	(29)	(62)	(7)	**(163)**	(29)	**(163)**
New business premiums	12 433	2 305	5 836	473	**21 047**	2 220	**20 962**
Recurring premiums	1 057	1 075	769	298	**3 199**	990	**3 114**
Single premiums	11 376	1 230	5 067	175	**17 848**	1 230	**17 848**
New business premiums (APE)	2 195	1 198	1 276	316	**4 985**	1 113	**4 900**
New business premiums (PVP)	17 421	5 126	11 627	1 635	**35 809**	5 042	**35 725**
Profitability of new business as a percentage of APE	9.2	19.9	16.7	17.7	**14.3**	18.8	**13.9**
Profitability of new business as a percentage of PVP	1.2	4.7	1.8	3.4	**2.0**	4.2	**1.9**

1 The FNB Life business was excluded in the Metropolitan Retail VNB at 30 June 2014 and included in the Metropolitan Retail VNB at 30 June 2013. Comparative figures, excluding FNB Life, have been provided.

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.

ANALYSIS OF NEW BUSINESS PREMIUMS 12 months to 30.06.2014	Momentum Retail Rm	Metropolitan Retail [1] Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm
New business premiums	15 948	2 584	6 384	541	25 457
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	1 501	5 351	214	21 992
Savings/investments	14 130	625	4 198	–	18 953
Annuities	796	876	1 153	–	2 825
International	–	–	–	214	214
New business premiums (APE)	2 515	1 233	1 568	348	5 664
Risk	501	713	408	–	1 622
Savings/investments	1 934	432	1 045	–	3 411
Annuities	80	88	115	–	283
International	–	–	–	348	348

ANALYSIS OF NEW BUSINESS PREMIUMS 12 months to 30.06.2013	Momentum Retail Rm	Metropolitan Retail [1] Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm	Metropolitan Retail (excl. FNB Life) [1] Rm	Comparative Segmental total (excl. FNB Life) Rm
New business premiums	12 433	2 305	5 836	473	**21 047**	2 220	**20 962**
Recurring premiums	1 057	1 075	769	298	**3 199**	990	**3 114**
Risk	508	748	369	–	**1 625**	663	**1 540**
Savings/investments	549	327	400	–	**1 276**	327	**1 276**
International	–	–	–	298	**298**	–	**298**
Single premiums	11 376	1 230	5 067	175	**17 848**	1 230	**17 848**
Savings/investments	10 921	589	2 267	–	**13 777**	589	**13 777**
Annuities	455	641	2 800	–	**3 896**	641	**3 896**
International	–	–	–	175	**175**	–	**175**
New business premiums (APE)	2 195	1 198	1 276	316	**4 985**	1 113	**4 900**
Risk	508	748	369	–	**1 625**	663	**1 540**
Savings/investments	1 641	386	627	–	**2 654**	386	**2 654**
Annuities	46	64	280	–	**390**	64	**390**
International	–	–	–	316	**316**	–	**316**

[1] The FNB Life business was excluded in the Metropolitan Retail VNB at 30 June 2014 and included in the Metropolitan Retail VNB at 30 June 2013. Comparative figures, excluding FNB Life, have been provided.

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]	2014 %	2013 %
Pre-tax investment return		
Equities	**12.0**	11.4
Properties	**9.5**	8.9
Government stock	**8.5**	7.9
Other fixed-interest stocks	**9.0**	8.4
Cash	**7.5**	6.9
Risk-free return[2]	**8.5**	7.9
Risk discount rate (RDR)	**10.8**	10.2
Investment return (before tax) – balanced portfolio	**10.7**	10.1
Base expense inflation[3]	**6.7**	6.1

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.

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 rate 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 30.06.2014 ANW Rm	12 months to 30.06.2014 Net VIF Rm	12 months to 30.06.2014 Embedded value Rm	12 months to 30.06.2013 Embedded value Rm
Momentum Retail	**93**	**77**	**170**	128
Mortality and morbidity[1]	223	12	235	259
Terminations, premium cessations and policy alterations[2]	(86)	91	5	17
Expense variance	43	–	43	–
Other[3]	(87)	(26)	(113)	(148)
Metropolitan Retail	**57**	**(18)**	**39**	62
Mortality and morbidity[1]	105	3	108	97
Terminations, premium cessations and policy alterations[4]	(37)	(23)	(60)	(97)
Expense variance	45	–	45	59
FNB Life – share of profits	30	–	30	–
Other[5]	(86)	2	(84)	3
Momentum Employee Benefits	**111**	**107**	**218**	306
Mortality and morbidity[1]	59	1	60	17
Terminations[6]	23	115	138	233
Expense variance	21	–	21	9
Other	8	(9)	(1)	47
Metropolitan International	**73**	**29**	**102**	152
Mortality and morbidity[1]	78	8	86	81
Terminations, premium cessations and policy alterations	12	5	17	65
Expense variance	(8)	14	6	16
Other	(9)	2	(7)	(10)
Shareholder Capital[7]	**62**	**24**	**86**	242
Opportunity cost of required capital	–	(71)	(71)	22
Total operating experience variances	**396**	**148**	**544**	912

1 Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.
2 Mainly due to good persistency on risk business and closed books where the impact of increased revenues in the value of in-force offset lower termination profits.
3 Various items including fee reductions on Wealth business, costs related to strategic initiatives and under-recovery of intergroup distribution costs.
4 Mainly due to negative experience on selected products with cashback features.
5 Mainly expenses relating to the Ukukhula business process enhancement project.
6 Favourable persistency impacted fee income positively.
7 The income recorded in respect of Shareholder Capital relates mostly to earnings from holding company activities and 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. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2014 ANW Rm	12 months to 30.06.2014 Net VIF Rm	12 months to 30.06.2014 Embedded value Rm	12 months to 30.06.2013 Embedded value Rm
Momentum Retail	**(212)**	**224**	**12**	78
Mortality and morbidity assumptions	**(2)**	**82**	**80**	66
Renewal expense assumptions[1]	**(19)**	**(11)**	**(30)**	104
Termination assumptions[2]	**(33)**	**(18)**	**(51)**	104
Modelling, methodology and other changes[3]	**(158)**	**171**	**13**	(196)
Metropolitan Retail	**125**	**(254)**	**(129)**	149
Mortality and morbidity assumptions[4]	**100**	**1**	**101**	205
Renewal expense assumptions[5]	**113**	**(26)**	**87**	90
Termination assumptions[4]	**(54)**	**(31)**	**(85)**	(178)
FNB Life[6]	**–**	**(91)**	**(91)**	–
Modelling, methodology and other changes[3]	**(34)**	**(107)**	**(141)**	32
Momentum Employee Benefits	**(170)**	**631**	**461**	387
Assumed mortality and morbidity profit margin[7]	**(76)**	**53**	**(23)**	(29)
Termination assumptions[8]	**–**	**144**	**144**	201
Renewal expense assumptions[9]	**(35)**	**401**	**366**	81
Modelling, methodology and other changes[10]	**(59)**	**33**	**(26)**	134
Metropolitan International	**(3)**	**18**	**15**	(18)
Mortality and morbidity assumptions	**(12)**	**5**	**(7)**	4
Renewal expense assumptions	**–**	**17**	**17**	24
Termination assumptions	**(4)**	**14**	**10**	(21)
Modelling, methodology and other changes	**13**	**(18)**	**(5)**	(25)
Shareholder Capital	**31**	**(38)**	**(7)**	20
Methodology change: cost of required capital[11]	**–**	**139**	**139**	(96)
Total operating assumption changes	**(229)**	**720**	**491**	520

1 Mainly allowance for the costs of strategic initiatives.
2 Mainly allowance for the impact of better persistency on risk business claims experience.
3 Various changes were made to models and methodology, including refinements to the calculation of tax relief on expenses. Provision was also made for policyholder benefit reviews.
4 Offsetting mortality and termination assumption changes were made to mainly Grouped individual lines of business, in line with recent experience investigations.
5 Allowances for better expense experience, in line with business budgets.
6 Future profits no longer recognised in the value of in-force for FNB Life business.
7 Strengthening of longevity assumptions on annuity business (ANW), offset by improvements on risk business.
8 Allowance made for improved persistency experience on FundsAtWork and Corporate Investment business.
9 Allowances for better expense experience, in line with business budgets, including allowance for clients moving to lower fee options on certain investment business.
10 Various changes to models and methodology.
11 Refinements to the modelling of the cost of required capital, including better allowance for diversification benefits.

G. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2014 Rm	12 months to 30.06.2013 Rm
Investment income	**696**	681
Capital appreciation	**368**	267
Preference share dividends paid and change in fair value of preference shares	**(27)**	(29)
Investment return on adjusted net worth	**1 037**	919

H. 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.

I. 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.

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

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

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 – 30.06.2014	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	14 069	20 324	23 393	(3 069)	779	948	(169)
1% increase in risk discount rate		18 640	22 094	(3 454)	650	836	(186)
% change		(8)	(6)	13	(17)	(12)	10
1% reduction in risk discount rate		22 220	24 857	(2 637)	925	1 074	(149)
% change		9	6	(14)	19	13	(12)
10% decrease in future expenses		21 456	24 516	(3 060)	875	1 044	(169)
% change[1]		6	5	–	12	10	–
10% decrease in lapse, paid-up and surrender rates		21 105	24 189	(3 084)	937	1 115	(178)
% change		4	3	–	20	18	5
5% decrease in mortality and morbidity for assurance business		21 803	24 849	(3 046)	919	1 088	(169)
% change		7	6	(1)	18	15	–
5% decrease in mortality for annuity business		20 007	23 101	(3 094)	771	941	(170)
% change		(2)	(1)	1	(1)	(1)	1
1% reduction in gross investment return, inflation rate and risk discount rate	14 039	20 885	23 930	(3 045)	863	1 032	(169)
% change[2]	–	3	2	(1)	11	9	–
1% reduction in inflation rate		21 034	24 103	(3 069)	849	1 018	(169)
% change		3	3	–	9	7	–
10% fall in market value of equities and properties	13 858	18 854	21 975	(3 121)	–	–	–
% change	(1)	(7)	(6)	2	–	–	–
10% reduction in premium indexation take-up rate		20 069	23 099	(3 030)	748	918	(170)
% change		(1)	(1)	(1)	(4)	(3)	1
10% decrease in non-commission-related acquisition expenses		–	–	–	880	1 049	(169)
% change		–	–	–	13	11	–
1% increase in equity/property risk premium		20 876	23 905	(3 029)	806	976	(170)
% change		3	2	(1)	3	3	1

[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 2014.

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 AND AMALGAMATIONS

Acquisitions

Acquisitions on 11 November 2013, the group acquired 100% in Providence Group (Providence), a healthcare administrator, for R108 million. On 3 March 2014, the group acquired 100% of Guardrisk Group (Pty) Ltd and its subsidiaries (collectively "Guardrisk") from Alexander Forbes for R1.6 billion. Refer to note 38 for more details.

Metropolitan International announced the acquisition of a significant majority stake in Kenyan insurer Cannon Assurance Ltd (Cannon) for around R300 million. The acquisition was subject to regulatory and other required approvals at 30 June 2014. The shareholders of Cannon will in turn acquire a minority stake in Metropolitan Life Kenya.

Metropolitan Health has acquired, subject to relevant regulatory approval, the CareCross Health Group, including a majority share in Occupational Care South Africa (OCSA).

Listed debt

The JSE Ltd has granted MMI Group Ltd the listing of new instruments to the total value of R1.5 billion. The instruments are unsecured subordinated callable notes and were issued on 17 March 2014. Refer to note 19 for more details.

Licence amalgamation

On 6 June 2014, the High Court of Namibia approved the transfer of Momentum Life Assurance Namibia Ltd's long-term insurance business to MMI Holdings Namibia Ltd (previously Metropolitan Life Namibia Ltd) with effect from 30 June 2014. This had no impact on the group results.

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 periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on page 126, including changes in estimates that are an integral part of the insurance business.

Reclassifications and new accounting standards adopted

The group June 2013 results have been restated for certain reclassifications and the retrospective application of new accounting standards adopted. Refer to page 107 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; Metropolitan 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).

In March 2014, the group announced a new client-centric operating model and structure with a new executive member team. The model commenced implementation on a phased basis from 2014 and therefore the segmental information in the segment report reflects the executive committee and their segments that were operational until 30 June 2014.

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 2014 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 R3 197 million (2013: R2 587 million) and R3 245 million (2013: R2 551 million) respectively. Group diluted core headline earnings were R3 621 million (2013: R3 241 million) and diluted core headline earnings per share 225.7 cents (2013: 202.1 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:

Analysis of diluted core headline earnings	2014 Rm	2014 % of total	Restated 2013 Rm	Restated 2013 % of total
Momentum Retail	**1 372**	**38**	1 158	36
Metropolitan Retail	**587**	**16**	509	16
Momentum Employee Benefits	**516**	**14**	341	11
Metropolitan International	**122**	**3**	108	3
Momentum Investments	**197**	**6**	175	5
Metropolitan Health	**171**	**5**	140	4
Shareholder Capital	**656**	**18**	810	25
Total per segmental report	**3 621**	**100**	3 241	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.

COMPANIES ACT

The company has approved a Memorandum of Incorporation in light of the promulgation of the Companies Act, 71 of 2008 and the Companies Regulations in May 2011.

SHARE CAPITAL

Share issue

There were no changes in the authorised or issued share capital of MMI Holdings Ltd during the current financial year. For the prior year the only change was the share buy-back relating to the odd lot offer in July 2012.

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(e) for more details.

MMI Group Ltd (MMIGL) preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. MMI Holdings Ltd acquired these shares from FirstRand Ltd in the prior year. Refer to note 15.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2014 cents per share	2013 cents per share
Interim – March	**57**	51
Final – September	**85**	76
Total	**142**	127
Special dividend	**50**	–
Total	**192**	127

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 9 September 2014, a gross final dividend of 85 cents per ordinary share was declared, resulting in an annual dividend of 142 cents per share. In addition, a special dividend of 50 cents per share was also declared. The final and special dividends are 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, 3 October 2014 and will be paid on Monday, 6 October 2014. Both dividends 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. The STC credits utilised per share amount to 0.03487 cents per ordinary share on the final dividend and 0.02051 cents per ordinary share on the special dividend. This will result in a net dividend, for those shareholders who are not exempt from paying dividend tax, of 72.25523 cents per ordinary share for the final dividend and 42.50308 cents per ordinary share for the special dividend.

The number of ordinary shares in issue at the declaration date was 1 569 803 700, whilst the last day to trade cum dividend will be Friday, 26 September 2014. The shares will trade ex dividend from the start of business on Monday, 29 September 2014. Share certificates may not be dematerialised or rematerialised between Monday, 29 September and Friday, 3 October 2014, both days inclusive. 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 R22.8 million (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares. The declaration rate was determined as set out in the company's Memorandum of Incorporation and the total preference dividend utilised STC credits of R9 335.

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. Dividends are payable at 132 cents per annum (payable March and September).

MMIGL preference shares

Dividends declared on the MMIGL preference shares to FirstRand Ltd in the prior year (prior to the shares being bought by MMI Holdings Ltd) amounted to R32 million.

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 263.

DIRECTORATE, SECRETARY AND AUDITOR

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

	Appointments	Resignations
Mr RB Gouws *(retired)*		**27 November 2013**
Mr FW van Zyl (deputy group CEO)		**30 June 2014**
Ms M Vilakazi		**27 November 2013**
Ms M Chetty (group company secretary)[1]	**3 September 2013**	
Mr LL von Zeuner	**1 January 2014**	

1 Ms M Chetty was appointed as acting group company secretary from 25 April 2013.

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on page 26 to page 27 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, has the following strategic empowerment holdings in the group:

- a 7.1% interest in MMI Holdings Ltd (34 million MMI Holdings Ltd preference shares and 79 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.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2014 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2014 '000	Total 2013 '000
Listed				
Executive directors	**464**	**315**	**779**	808
Non-executive directors	**64**	**2 082**	**2 146**	3 337
	528	**2 397**	**2 925**	4 145

Refer to page 263 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 52 and 53 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd shares at 30 June 2014 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2014 '000	Total 2013 '000
Listed				
Executive directors	**8**	**64**	**72**	80
Non-executive directors	**51**	**1 451**	**1 502**	1 497
	59	**1 515**	**1 574**	1 577

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.02% (2013: 0.02%).

DIRECTORS' REPORT *CONTINUED*

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 2014 is set out below. The detail in terms of the Listings Requirements of the JSE Ltd is set out on pages 62 to 65 in the corporate governance report.

	Fees R'000	Annual package R'000	Bonus[1] R'000	Long-term incentive payments R'000	Pension fund contri-butions R'000	Total 2014 R'000	Total 2013 R'000
Executive	–	19 051	19 185	32 431	1 136	**71 803**	56 824
Non-executive	15 877	–	–	–	–	**15 877**	19 288
Total	15 877	19 051	19 185	32 431	1 136	**87 680**	76 112

[1] Bonus payments relate to the 2013 financial year's bonus.

The share-based payment charge relating to the executive directors amounted to R35 million (2013: R23 million). Refer to note 21.2(e) for details.

SPECIAL RESOLUTIONS

MMI Holdings Ltd annual general meeting – 27 November 2013

At the annual general meeting of shareholders of the company held on 27 November 2013 the following special resolutions were approved:

- The board of directors was authorised, by way of a general approval, to enable the company to acquire up to a maximum of 20% of its own issued share capital, or if acquired by a subsidiary, up to a maximum of 10% of its holding company's issued share capital. Such authority is to remain valid until the company's next annual general meeting, but not beyond a period of 15 months after the date of approval of this resolution.
- The board of directors was authorised, by way of a general approval, to authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the board may determine. This approval is valid for two years from the date of approval of this resolution.
- The fees for the members of the board of directors and other committee members were approved.

MMIGL annual general meeting – 28 November 2013

At the annual general meeting of shareholders of the company held on 28 November 2013 the following special resolutions were approved:

- The board of directors was authorised, by way of a general approval, to authorise the repurchase, from time to time, by the company or any of its subsidiaries of shares issued by the company, subject to the provisions of the Memorandum of Incorporation of the company.
- The board of directors was authorised, by way of a general approval, to authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the board may determine. This approval is valid for two years from the date of approval of this resolution.
- The fees for the members of the board of directors and other committee members were approved.

BORROWING POWERS

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

EVENTS AFTER YEAR-END

Subsequent to year-end the market value of the African Bank equities and bonds decreased. Based on available information, the direct impact to MMI's earnings (less than 2%), core headline earnings (less than 0.5%) and embedded value (less than 0.5%) is not expected to be material.

The Kenyan competition authorities approved the Cannon transaction on 25 August 2014.

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

STATEMENT OF ASSETS AND LIABILITIES ON REPORTING BASIS

AT 30 JUNE 2014

	2014 Rm	Restated 2013 Rm
REPORTING BASIS		
Total assets per statement of financial position	**414 306**	360 368
Actuarial value of policy liabilities	**(338 599)**	(281 686)
Other liabilities per statement of financial position	**(50 493)**	(54 818)
Non-controlling interests per statement of financial position	**(480)**	(391)
Group excess per reporting basis	**24 734**	23 473
Net assets – other businesses	**(2 999)**	(1 547)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(4 343)**	(5 001)
Excess – long-term insurance business, net of non-controlling interests[1]	**17 392**	16 925
RECONCILIATION OF CHANGE IN LONG-TERM INSURANCE EXCESS TO THE INCOME STATEMENT		
Change in excess – long-term insurance business[1]	**467**	143
Increase in share capital	**(27)**	(29)
Change in other reserves[2]	**(271)**	(62)
Dividend paid – ordinary shares	**3 282**	3 140
Change in non-controlling interests	**9**	–
Other	**(21)**	(22)
Total surplus arising, net of non-controlling interests	**3 439**	3 170
Operating profit	**2 677**	2 530
Investment income on excess	**748**	683
Net realised and fair value gains on excess	**301**	221
Investment variances	**170**	117
Basis and other changes	**(457)**	(381)
Net consolidation adjustments	**20**	(43)
Earnings after tax and non-controlling interests of long-term insurance business	**3 459**	3 127
Earnings after tax and non-controlling interests of other group businesses and consolidation adjustments	**184**	(94)
Amortisation of intangible assets relating to the merger	**(446)**	(446)
Earnings attributable to owners of the parent as per income statement	**3 197**	2 587

RECONCILIATION OF REPORTING EXCESS TO STATUTORY EXCESS	2014 Rm	Restated 2013 Rm
Reporting excess – long-term insurance business[1]	**17 392**	16 925
Disregarded assets in terms of statutory requirements[3]	**(966)**	(977)
Difference between statutory and published valuation methods	**(571)**	(551)
Write-down of subsidiaries' and associates' values for statutory purposes	**(1 387)**	(936)
Unsecured subordinated debt	**3 075**	1 553
Consolidation adjustments	**(23)**	(119)
Statutory excess – long-term insurance business	**17 520**	15 895
Capital adequacy requirement (CAR)[4]	**6 221**	6 167
Ratio of long-term insurance business excess to CAR (times)	**2.8**	2.6
Discretionary margins[5]	**14 161**	12 508

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. It is after non-controlling interests but excludes certain items which are eliminated on consolidation. It also excludes non-insurance business.

2 Includes a one-off enhancement of benefits, relating to the outsourcing of the Metropolitan Staff Pension Fund liabilities (R107 million), that is not included in the surplus arising from long-term insurance business.

3 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 R546 million (2013: R562 million).

4 Aggregation of separate company CARs, with no assumption of diversification benefits.

5 Discretionary margins are shown gross of tax. The prior year number has been restated. June 2013 was also aligned to the restated statement of financial position.

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	2014 Rm	Restated 2013 Rm	Restated 1 July 2012 Rm	Notes
ASSETS				
Intangible assets	**12 819**	11 769	11 998	1
Owner-occupied properties	**1 714**	1 488	1 464	2
Property and equipment	**315**	348	321	3
Investment properties	**7 675**	6 433	5 415	4
Investments in associates	**179**	121	127	5
Employee benefit assets	**405**	327	302	21.1
Financial instruments				
Securities designated at fair value through income	**334 996**	289 501	248 311	6.1
Investments in associates designated at fair value through income	**11 900**	13 031	12 556	6.2
Derivative financial instruments	**2 362**	3 173	3 579	6.3
Available-for-sale	**129**	953	2 902	6.4
Held-to-maturity	**100**	69	60	6.5
Loans and receivables	**5 586**	5 697	3 893	7
Reinsurance contracts	**2 576**	1 345	1 350	8
Deferred income tax	**263**	124	107	9
Properties under development	**252**	98	–	10
Insurance and other receivables	**3 813**	2 828	2 634	11
Current income tax assets	**330**	108	62	25.1
Cash and cash equivalents	**28 875**	22 275	18 273	12
Non-current assets held for sale	**17**	680	865	24
Total assets	**414 306**	360 368	314 219	
EQUITY				
Equity attributable to owners of the parent	**24 734**	23 473	23 517	
Share capital	**13 791**	13 803	13 814	13
Other components of equity	**1 802**	1 631	1 572	14
Retained earnings	**9 141**	8 039	8 131	
Preference shares	**–**	–	500	15
Non-controlling interests	**480**	391	281	
Total equity	**25 214**	23 864	24 298	
LIABILITIES				
Insurance contract liabilities				
Long-term insurance contracts	**106 039**	96 962	88 384	16.1
Short-term insurance contracts	**5 496**	–	–	16.2
Capitation contracts	**8**	11	1	16
Financial instruments				
Investment contracts	**227 056**	184 713	158 239	
– with discretionary participation features (DPF)	**25 405**	24 937	23 696	17.1
– designated at fair value through income	**201 651**	159 776	134 543	17.2
Designated at fair value through income	**30 801**	34 171	25 343	19
Derivative financial instruments	**1 853**	2 547	2 040	6.3
Amortised cost	**1 463**	1 246	854	20
Deferred income tax	**4 281**	3 917	3 934	9
Employee benefit obligations	**1 246**	1 328	1 206	21.2
Other payables	**10 437**	11 162	9 463	22
Provisions	**157**	180	153	23
Current income tax liabilities	**255**	267	304	25.1
Total liabilities	**389 092**	336 504	289 921	
Total equity and liabilities	**414 306**	360 368	314 219	

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	Restated 2013 Rm	Notes
Insurance premiums	28 118	26 435	
Insurance premiums ceded to reinsurers	(4 980)	(3 131)	
Net insurance premiums	23 138	23 304	26
Fee income	6 567	6 205	27
Investment contracts	1 772	1 901	
Trust and fiduciary services	2 014	1 837	
Health administration	1 978	1 866	
Other fee income	803	601	
Investment income	14 043	13 046	28
Net realised and fair value gains	43 906	30 859	29
Net income	87 654	73 414	
Insurance benefits and claims	24 327	21 872	
Insurance claims recovered from reinsurers	(2 006)	(1 545)	
Net insurance benefits and claims	22 321	20 327	30
Change in liabilities	7 850	9 305	
Change in long-term insurance contract liabilities	7 786	8 087	16.1
Change in short-term insurance contract liabilities	(72)	–	16.2
Change in investment contracts with DPF liabilities	468	1 239	17.1
Change in reinsurance provisions	(332)	(21)	8
Fair value adjustments on investment contract liabilities	32 959	22 715	17.2
Fair value adjustments on collective investment scheme liabilities	3 061	2 782	
Depreciation, amortisation and impairment expenses	1 159	1 144	31
Employee benefit expenses	5 132	4 494	32
Sales remuneration	3 899	3 061	33
Other expenses	5 035	4 476	34
Expenses	81 416	68 304	
Results of operations	6 238	5 110	
Share of profit of associates	2	12	5
Finance costs	(482)	(667)	35
Profit before tax	5 758	4 455	
Income tax expense	(2 458)	(1 804)	25.2
Earnings for year	3 300	2 651	
Attributable to:			
Owners of the parent	3 197	2 587	36
Non-controlling interests	103	32	
MMIGL preference shares	–	32	
	3 300	2 651	
Basic earnings per ordinary share (cents)	205.5	166.0	36
Diluted earnings per ordinary share (cents)	202.4	164.2	36

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	2013 Rm	Notes
Earnings for year	3 300	2 651	
Other comprehensive income, net of tax	165	88	
Items that may subsequently be reclassified to income	32	86	
Exchange differences on translating foreign operations	40	86	14
Available-for-sale financial assets	(8)	–	14
Items that will not be reclassified to income	133	2	
Land and building revaluation	41	9	14
Change in non-distributable reserves	6	(10)	14
Adjustments to employee benefit funds			
Metropolitan Staff Pension Fund	107	–	14
Other	(9)	–	14
Income tax relating to items that will not be reclassified	(12)	3	14
Total comprehensive income for year	3 465	2 739	
Total comprehensive income attributable to:			
Owners of the parent	3 363	2 654	
Non-controlling interests	102	53	
MMIGL preference shares	–	32	
	3 465	2 739	

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attri-butable to owners of the parent Rm	Pref-erence shares Rm	Non-control-ling interests Rm	Total equity Rm	Notes
Balance at 1 July 2012	9	13 805	1 572	8 131	23 517	500	281	24 298	
Total comprehensive income	–	–	67	2 587	2 654	32	53	2 739	
Income statement	–	–	–	2 587	2 587	32	32	2 651	
Other comprehensive income	–	–	67	–	67	–	21	88	
Dividend paid	–	–	–	(2 886)	(2 886)	(32)	(97)	(3 015)	
Increase in treasury shares held on behalf of contract holders	–	(4)	–	–	(4)	–	–	(4)	
Transfer (to)/from retained earnings	–	–	(8)	8	–	–	–	–	14
Transactions with non-controlling interest shareholders	–	–	–	87	87	–	–	87	
Transactions with owners	–	–	–	–	–	–	39	39	14(f)
Share buy-backs	–	(7)	–	–	(7)	(500)	–	(507)	
Business combinations	–	–	–	–	–	–	115	115	
Profit on preference share buy-back	–	–	–	112	112	–	–	112	
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 from/(to) retained earnings	**–**	**–**	**3**	**(3)**	**–**	**–**	**–**	**–**	14
Business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**	
Balance at 30 June 2014	**9**	**13 782**	**1 802**	**9 141**	**24 734**	**–**	**480**	**25 214**	

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	Restated 2013 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(4 577)**	(1 651)	37.1
Interest received	**10 078**	9 898	
Dividends received	**3 118**	2 341	
Income tax paid	**(2 939)**	(1 994)	37.2
Interest paid	**(479)**	(670)	37.3
Net cash inflow from operating activities	**5 201**	7 924	
Cash flow from investing activities			
Acquisition of subsidiaries	**627**	(411)	38
Transactions with minority shareholders	**–**	73	
Disposal of non-current assets held for sale	**663**	–	
Transaction costs on acquisition of subsidiaries and associates	**(25)**	(6)	
Loans advanced to related parties	**(102)**	(68)	
Purchase of owner-occupied properties	**(4)**	(36)	
Purchase of property and equipment	**(159)**	(206)	
Disposal of property and equipment	**11**	8	
Purchase of intangible assets	**(218)**	(109)	
Disposal of intangible assets	**–**	2	
Net cash in/(outflow) from investing activities	**793**	(753)	
Cash flow from financing activities			
Shares repurchased and cancelled	**–**	(7)	
Finance leases repaid	**(1)**	–	
Increase in other borrowings	**3 105**	241	
Repayment of other borrowings	**(388)**	–	
Dividends paid to equity holders	**(2 092)**	(2 886)	
Preference shares acquired	**–**	(388)	
Preference share dividends paid	**–**	(32)	
Dividends paid to non-controlling interest shareholders	**(18)**	(97)	
Net cash in/(outflow) from financing activities	**606**	(3 169)	
Net cash flow	**6 600**	4 002	
Cash resources and funds on deposit at beginning	**22 275**	18 273	
Cash resources and funds on deposit at end	**28 875**	22 275	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**28 875**	22 275	12
	28 875	22 275	

GROUP ACCOUNTING POLICIES

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 126.

The preparation of the group's consolidated results was supervised by the group finance director, Preston Speckmann, BCompt (Hons), 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 2013 results have been restated for the following reclassifications:

- The comparative segmental information has been restated, where appropriate, to ensure alignment with the way in which the chief operating decision-maker, being the MMI Executive Committee, monitors and evaluates the performance of the various segments of the business.
  - MMI Rewards (including Momentum Multiply) has been reallocated from Momentum Retail to Shareholder Capital as the Rewards programme is a group-wide initiative. As a result, the income, expenses, employees and all related activities have moved from the Momentum Retail segment to the Shareholder Capital segment.
  - The Momentum Employee Benefits segment has taken over the management of the Momentum Health open scheme administration business to better align this with the corporate business. As a result, the income, expenses, employees and all related activities have moved from the Metropolitan Health segment to the Momentum Employee Benefits segment.

  Refer to the analysis of reclassifications table on page 132 for more details.
- Interest relating to interest rate swaps was previously grossed up and disclosed as interest income and finance costs. As interest rate swaps are subject to fair value risk associated with the fixed and floating interest legs, the net amount has now been disclosed as net realised and fair value gains. Refer to Appendix C for further details.

These restatements had no impact on the current or prior year reported earnings, diluted earnings or headline earnings per share, nor on the net asset value or net cash flow.

Published standards, amendments and interpretations effective for June 2014 financial period

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2013 and have been implemented in accordance with the transitional provisions of these standards:

- IFRS 10 – Consolidated financial statements, IFRS 11 – Joint arrangements, IFRS 12 – Disclosure of interests in other entities, IAS 28 (revised) – Investments in associates and joint ventures (consolidation project)

  IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. If no single party controls the investee, IFRS 11 provides guidance on whether a joint arrangement exists. IAS 28 was revised to incorporate amendments from this consolidation project.

BASIS OF PREPARATION OF THE STATEMENTS
continued

Published standards, amendments and interpretations effective for June 2014 financial period *continued*

- Collective investment schemes: Previously the group consolidated collective investment schemes where the group's holding in a fund was greater than 50% and investments in a fund of between 20% and 50% were considered to be interests in associates. As a result of the adoption of IFRS 10 the group considers control over the fund manager and no longer uses the percentage holdings referred to above as the defining parameter of control over the schemes. This resulted in an increased number of collective investment schemes being reclassified to subsidiaries (from associates) and to associates (from unit-linked investments).
- Cell captives: Before the adoption of IFRS 10, cells were regarded as special purpose entities under SIC 12 and were not included in the consolidated group results as the risks and rewards of these cells were not transferred to the group. As a result, these cells were included in the consolidated results of cell owners. Under IFRS 10 a cell can only be consolidated by the cell owner if it first meets the definition of a deemed separate entity. Cell captives in South Africa are not legally ring-fenced and are not seen as protected cells; therefore they do not meet the definition of a deemed separate entity. Cells are therefore no longer considered to be special purpose entities. This resulted in the group recognising the assets, liabilities, income and expenses relating to its cell captive business in its consolidated results. Because the risks and rewards relating to cell activities are for the benefit of cell owners, the inclusion of cell income and expenses does not impact the group's net results, as the results of cell activities are transferred back to the cell owner.
- Other financial instruments: There were no other material financial instruments that met the new consolidation criteria.

The changes resulting from the above have been applied retrospectively as required by the transitional provisions of IFRS 10. IFRS 12 was also issued as part of the consolidation project and includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-balance sheet vehicles. The group has incorporated these disclosures in this integrated report.

Refer to Appendix C for details of the above required restatements to the previously reported statement of financial position, income statement and statement of cash flows. Total assets and liabilities increased by R17.2 billion for June 2013 (1 July 2012: R11.6 billion). Refer to the segment report for its restatements due to IFRS 10. There was no impact on the statement of other comprehensive income or statement of changes in equity. The restatements had no impact on the current or prior year earnings, diluted earnings or headline earnings per share, or on the net asset value of the group.

- Amendments to IAS 19 – Employee benefits
  The revised employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard requires the immediate recognition of all past services costs in the income statement and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Remeasurements as defined in the standard are now recorded in other comprehensive income. The application of this amendment did not have a significant impact on the group's financial position, group earnings and cash flows in the prior year and the impact in the current year resulted in R98 million of asset remeasurements being recorded in other comprehensive income and not the income statement.
- IFRS 13 – Fair value measurements
  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard is required to be applied prospectively with no restatements. The impact of this change of fair value measurement has not been material on the current year earnings, diluted earnings or headline earnings per share, or on the net asset value of the group. IFRS 13 requires additional disclosure on assets and liabilities carried at fair value and the group has provided these additional disclosures in this integrated report.

All of the above have been implemented in accordance with the relevant transitional provisions.

- Other
  - IFRS 7 (amendment) – Financial instruments: disclosures: offsetting financial assets and financial liabilities became effective for the first time in the current year and had no impact on the group's earnings.
  - The International Accounting Standards Board (IASB) made amendments to various standards as part of their annual improvements project. These amendments had no 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, IFRS 12 and IAS 27 (amendments) – Investment entities (effective from annual periods beginning on or after 1 January 2014).
- IAS 32 (amendment) – Financial instruments: presentation – offsetting financial assets and financial liabilities (effective from annual periods beginning on or after 1 January 2014).
- IAS 36 (amendment) – Impairment of assets – recoverable amount disclosures for non-financial assets (effective from annual periods beginning on or after 1 January 2014).
- IAS 39 (amendment) – Financial instruments: recognition and measurement – novation of derivatives and continuation of hedge accounting (effective from annual periods beginning on or after 1 January 2014).
- IFRIC 21 – Levies (effective from annual periods beginning on or after 1 January 2014).
- IAS 19 (amendment) – Employee benefits (effective from annual periods beginning on or after 1 July 2014).
- IFRS 11 (amendment) – Joint arrangements (effective from annual periods beginning on or after 1 January 2016).

BASIS OF PREPARATION OF THE STATEMENTS
continued

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

- 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 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).
- 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).

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).

Improvements project amendments

- IFRS 1 – First-time adoption of International Financial Reporting Standards (effective from annual periods beginning on or after 1 July 2014).

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). 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.

GROUP ACCOUNTING POLICIES *CONTINUED*

CONSOLIDATION *continued*

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.

Acquisition of subsidiaries/businesses under common control

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

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.

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)

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

Impairment

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

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

INTANGIBLE ASSETS *continued*

Brand and broker network *continued*

Measurement continued

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.

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

Properties under development

Properties under development are properties under construction that are not yet available to earn rentals for use in the supply of services or for administrative purposes. These properties are presented as part of property and equipment, unless their future use is as investment properties.

Measurement

Properties under development are measured at cost directly attributable to the development of these properties, unless their future use is as investment properties.

PROPERTY AND EQUIPMENT *continued*

Properties under development *continued*

Impairment

Properties under development 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, which is the discounted net value of assumed future rentals.

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 – 4 years
Motor vehicles	5 – 6 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

Properties under development

Properties that are under construction or development for future use as investment property are accounted for as investment properties.

Measurement

Properties under development are measured at fair value. However, where fair value is not considered reliable, the properties are measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliable.

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

GROUP ACCOUNTING POLICIES *CONTINUED*

FINANCIAL ASSETS *continued*

Classification *continued*

- 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 instruments traded in active markets is based on quoted market prices at the reporting date. Collective investment schemes 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.

  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

FINANCIAL ASSETS *continued*

Impairment of financial assets *continued*

- Loans and receivables *continued*

  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.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *continued*

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 – CONSTRUCTION CONTRACTS

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.

A group of contracts is treated as a single construction contract when the group of contracts is negotiated as a single package and the contracts are so interrelated that they are, in effect, part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence.

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised using the percentage of completion method. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The group uses the "percentage of completion method" to determine the appropriate costs to recognise in a given period. The stage of completion is measured with reference to the contract costs or major activity incurred up to the reporting date as a percentage of total estimated costs or major activity for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion and are presented as contracts in progress.

The group also presents as contracts in progress the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The group presents as a liability (excess billings over work done) the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

Share capital is classified as equity where the group has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the group are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included in equity.

Issue costs

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

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

SHARE CAPITAL *continued*

Treasury shares *continued*

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.

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.

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, 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 policies are issued in third-party cell captive structures or contingency/rent-a-captive policies or where the company accepts insurance and reinsurance inwards risks directly. 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 insurance and investment contracts containing *discretionary participation features* (DPF). These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to insurance contracts and investment contracts with DPF are measured in accordance with the *financial soundness valuation* (FSV) basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The FSV basis is based on the best estimate assumptions regarding future experience plus *compulsory margins* and additional *discretionary margins* for prudence and deferral of profit emergence.

Assumptions used in the valuation basis are reviewed at least annually and any 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

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

Insurance contracts and investment contracts with DPF *continued*

Measurement continued

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.
- 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 tax losses in cells, 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 resulting tax asset will be reduced or eliminated.

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

Insurance contracts and investment contracts with DPF *continued*

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.

Impairment of reinsurance assets
If there is *objective evidence* that the 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.

Insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the 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.

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

Capitation contracts *continued*

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

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

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

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 after 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.

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 proportion of acquisition costs incurred which corresponds with the unearned premium provision. Deferred acquisition costs are therefore recognised using the same methodologies applied to unearned

SHORT-TERM INSURANCE CONTRACTS *continued*

Deferred acquisition costs *continued*

premiums so as to achieve matching of deferred acquisition costs and the unearned premiums to which these acquisition costs relate. Deferred acquisition costs comprise commission paid for the acquisition of broker sourced business.

Outstanding insurance contract claims

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

- claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- 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 assets were acquired. Management determines the classification of its financial assets 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

FINANCIAL LIABILITIES *continued*

Financial liabilities at amortised cost *continued*

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.

LEASES: ACCOUNTING BY LESSEE *continued*

Finance leases *continued*

Measurement continued

- 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.

EMPLOYEE BENEFITS *continued*

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 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

NON-CURRENT ASSETS HELD FOR SALE *continued*

- 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 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.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

PREPARATION OF FINANCIAL STATEMENTS

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

APPLICATION OF ACCOUNTING POLICIES

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the group. Management applies judgement in determining best estimates of future experience. Judgements are based on historical experience and management's best-estimate expectations of future events, taking into account changes experienced historically. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying values of the affected assets and liabilities. The critical estimates and judgements made in applying the group's accounting policies are detailed in the notes to the annual financial statements, as listed below:

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10 the group considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the group or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 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 – note 18
- Valuation assumptions for financial instruments – note 51

SEGMENTAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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.

In March 2014, the group announced a new client-centric operating model and structure with a new executive member team. Phased implementation of the model commenced from 1 July 2014. The segmental information discussed below reflects the executive committee and their segments that were operational until 30 June 2014.

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 and health companies are all managed as one operating segment, Metropolitan 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 the small, micro and medium enterprise (SMME) market segments. This segment also includes Guardrisk in the current year.
- Metropolitan International: Provides products for retail and institutional customers in Africa for: health insurance and healthcare administration, risk savings and investment products, retirement fund administration and 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, 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 "Other 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 excess, 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 contractual agreement between MMI and FirstRand Bank was changed with effect from 1 July 2013, reducing MMI's profit-sharing arrangement from 10% to 4%. As a result, Metropolitan Retail's segmental information excludes FNB Life and the "Adjustments for FNB Life" column reconciles this to the figures included under IFRS. The prior year included 10% in the segmental information.
- The "Reconciling items" column represents the IFRS accounting reclassifications and adjustments that are required to reconcile management information to the IFRS financial statements. More information has been provided as a footnote.

SEGMENTAL REPORT *CONTINUED*

FOR THE YEAR ENDED 30 JUNE 2014

2014	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan 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 to contract holders	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	1 338	729
Amortisation due to business combinations and impairments	–	–	–	15
Cell captive business	–	–	459	–
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); non-recurring items (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] Metropolitan Health’s administration expenses for the current year include R33 million relating to the acquisition of Providence.

[3] Momentum Employee Benefits includes net insurance premiums (R1 699 million), fee income (R187 million), net payments to contract holders (R1 509 million), sales remuneration (R376 million), cell captive business expenses (R382 million) and actuarial liabilities (R13 944 million) relating to Guardrisk.

[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 R22 216 million, and the total of such non-current assets located in other countries is R755 million.

Momentum Investments Rm	Metropolitan Health[2] 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	502	7 266	(719)	20	6 567
1 442	1 513	502	7 266	90	20	7 376
–	–	–	–	(809)	–	(809)
10 823	46	313	52 429	(30 108)	–	22 321
1 195	1 311	1 164	12 728	2 274	223	15 225
–	–	71	3 843	(8)	64	3 899
954	1 288	531	7 585	359	159	8 103
9	14	39	77	776	–	853
–	–	–	459	–	–	459
–	–	–	–	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

SEGMENTAL REPORT *CONTINUED*

FOR THE YEAR ENDED 30 JUNE 2014

Restated 2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm
Revenue				
Net insurance premiums	18 575	6 246	12 228	2 535
Recurring premiums	7 611	5 013	7 145	2 244
Single premiums[2]	10 964	1 233	5 083	291
Fee income	2 089	134	1 182	145
External fee income	2 089	134	1 182	145
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders	18 609	4 509	9 385	1 340
External payments to contract holders	18 609	4 509	9 385	1 340
Inter-segmental payments to contract holders	–	–	–	–
Other expenses	3 173	2 029	1 380	1 052
Sales remuneration	1 645	871	128	335
Administration expenses	1 528	1 158	1 202	715
Amortisation due to business combinations and impairments	–	–	–	2
Cell captive business	–	–	50	–
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	743	374	409	68
Diluted core headline earnings	1 158	509	341	108
Operating profit	1 619	707	456	145
Tax on operating profit	(461)	(198)	(115)	(37)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	153 463	29 070	55 977	7 656

1 The "Reconciling items" column includes: an adjustment to reverse investment contract premiums (R33 609 million) and claims (R29 034 million); grossing up of fee income and expenses relating to properties under development (R121 million); non-recurring items (R67 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 (R18 million); other minor adjustments to expenses (R88 million), sales remuneration (R17 million) and fee income (R61 million); and adjustments to actuarial liabilities representing inter-segmental liabilities.

2 Momentum Investments includes two significant client single premium inflows.

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 R20 219 million, and the total of such non-current assets located in other countries is R718 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
	16 819	37	299	56 739	(33 609)	174	23 304
	–	37	287	22 337	(5 063)	174	17 448
	16 819	–	12	34 402	(28 546)	–	5 856
	1 467	1 452	470	6 939	(745)	11	6 205
	1 467	1 452	470	6 939	182	11	7 132
	–	–	–	–	(927)	–	(927)
	15 241	37	269	49 390	(29 066)	3	20 327
	15 241	37	269	49 390	(29 034)	3	20 359
	–	–	–	–	(32)	–	(32)
	1 215	1 294	974	11 117	1 863	195	13 175
	–	–	34	3 013	(17)	65	3 061
	948	1 279	364	7 194	294	130	7 618
	1	15	39	57	795	–	852
	–	–	–	50	–	–	50
	–	–	–	–	220	–	220
	266	–	313	579	1 521	–	2 100
	–	–	224	224	–	–	224
	–	–	–	–	(950)	–	(950)
	86	37	274	1 991	(187)	–	1 804
	175	140	810	3 241	–	–	3 241
	198	163	211	3 499	–	–	3 499
	(54)	(33)	(52)	(950)	–	–	(950)
	43	14	860	917	–	–	917
	(12)	(4)	(209)	(225)	–	–	(225)
	32 703	11	3 250	282 130	(444)	–	281 686

Analysis of reclassifications – 2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm

The comparative segmental information has been restated for the effect of IFRS 10 and, where appropriate, to ensure alignment with the way in which the chief operating decision-maker, being the MMI Executive Committee, monitors and evaluates the performance of the various segments of the business:

- MMI Rewards (including Momentum Multiply) has been reallocated from Momentum Retail to Shareholder Capital as the Rewards programme is a group-wide initiative. As a result the income, expenses, employees and all related activities have moved from the Momentum Retail segment to the Shareholder Capital segment.
- The Momentum Employee Benefits segment has taken over the management of the Momentum Health open scheme administration business to better align this with the corporate business. As a result the income, expenses, employees and all related activities have moved from the Metropolitan Health segment to the Momentum Employee Benefits segment.

Refer to table below for detail. These restatements had no impact on total core headline earnings.

Analysis of reclassifications – 2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm
Net insurance premiums				
Published 30 June 2013	18 575	6 246	12 072	2 535
Reclassifications	–	–	156	–
Restated 30 June 2013	18 575	6 246	12 228	2 535
Fee income				
Published 30 June 2013	2 369	134	862	145
Reclassifications	(280)	–	320	–
Restated 30 June 2013	2 089	134	1 182	145
Net payments to contract holders				
Published 30 June 2013	18 609	4 509	9 240	1 340
Reclassifications	–	–	145	–
Restated 30 June 2013	18 609	4 509	9 385	1 340
Other expenses				
Published 30 June 2013	3 215	2 029	983	1 052
Reclassifications	(42)	–	397	–
Restated 30 June 2013	3 173	2 029	1 380	1 052
Income tax				
Published 30 June 2013	741	374	107	68
Reclassifications	2	–	302	–
Restated 30 June 2013	743	374	409	68
Diluted core headline earnings				
Published 30 June 2013	1 179	509	330	108
Reclassifications	(21)	–	11	–
Restated 30 June 2013	1 158	509	341	108
Actuarial liabilities				
Published 30 June 2013	153 463	29 070	54 614	7 656
Reclassifications	–	–	1 363	–
Restated 30 June 2013	153 463	29 070	55 977	7 656

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items Rm	Adjustments for FNB Life Rm	IFRS total Rm
16 819	193	299	56 739	(33 609)	174	23 304
–	(156)	–	–	–	–	–
16 819	37	299	56 739	(33 609)	174	23 304
1 467	1 772	190	6 939	(716)	11	6 234
–	(320)	280	–	(29)	–	(29)
1 467	1 452	470	6 939	(745)	11	6 205
15 241	182	269	49 390	(29 066)	3	20 327
–	(145)	–	–	–	–	–
15 241	37	269	49 390	(29 066)	3	20 327
1 215	1 619	700	10 813	1 894	195	12 902
–	(325)	274	304	(31)	–	273
1 215	1 294	974	11 117	1 863	195	13 175
86	37	276	1 689	(187)	–	1 502
–	–	(2)	302	–	–	302
86	37	274	1 991	(187)	–	1 804
175	151	789	3 241	–	–	3 241
–	(11)	21	–	–	–	–
175	140	810	3 241	–	–	3 241
32 703	11	3 250	280 767	(444)	–	280 323
–	–	–	1 363	–	–	1 363
32 703	11	3 250	282 130	(444)	–	281 686

SEGMENTAL REPORT *CONTINUED*

FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	Restated 2013 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	21 215	18 609
Death and disability claims	3 412	3 018
Maturity claims	6 444	5 726
Annuities	4 505	3 849
Withdrawal benefits	46	140
Surrenders	7 569	6 655
Reinsurance recoveries	(761)	(779)
Metropolitan Retail	5 523	4 509
Death and disability claims	1 049	991
Maturity claims	2 373	1 688
Annuities	558	540
Withdrawal benefits	97	61
Surrenders	1 542	1 324
Reinsurance recoveries	(96)	(95)
Momentum Employee Benefits[1]	12 907	9 385
Death and disability claims	3 635	3 241
Maturity claims	667	491
Annuities	765	1 321
Withdrawal benefits	3 358	2 550
Terminations	3 685	834
Disinvestments	117	1 620
Short-term insurance	1 880	–
Reinsurance recoveries	(1 200)	(672)
Metropolitan International (individual and employee benefits)	1 602	1 340
Death and disability claims	701	556
Maturity claims	284	234
Annuities	97	84
Withdrawal benefits	90	70
Surrenders	395	362
Terminations	80	64
Reinsurance recoveries	(45)	(30)
Investments – withdrawal benefits	10 823	15 241
Health claims	46	37
Shareholder Capital claims	313	269
Segmental payments to contract holders	52 429	49 390
Adjusted for payments to investment contract holders	(30 196)	(29 181)
Transfers between insurance, investment and investment with DPF business	88	147
FNB Life adjustment	–	3
Inter-segmental payments to contract holders	–	(32)
Net insurance benefits and claims (refer to note 30)	22 321	20 327

[1] Included in Momentum Employee Benefits above is R2 023 million claims and R514 million reinsurance recoveries relating to Guardrisk.

		2014 Rm	2013 Rm
1	**INTANGIBLE ASSETS**		
	Goodwill	1 088	502
	Value of in-force business acquired	5 498	5 681
	Customer relationships	2 322	2 268
	Brands	985	963
	Broker network	386	65
	Deferred acquisition costs	2 059	1 994
	Computer software	481	296
		12 819	11 769
1.1	**Goodwill**		
	Cost	1 149	563
	Accumulated impairment	(61)	(61)
	Carrying amount	1 088	502
	Carrying amount at beginning	502	311
	Business combinations (refer to note 38)	586	191
	Carrying amount at end	1 088	502
	Cash-generating units		
	Ex-Metropolitan group – Metropolitan Retail	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	–
	Providence – Metropolitan Health	19	–
		1 088	502

Critical accounting estimates and judgements

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing.

- The R170 million goodwill relating to the ex-Metropolitan group resulted from the merger between Metropolitan and Momentum in December 2010.
- Goodwill of R191 million resulted from the acquisition of Eris Property Group in October 2012.
- Goodwill of R19 million resulted from the acquisition of Providence in November 2013.
- The acquisition of Guardrisk in March 2014 resulted in goodwill of R567 million.

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 particularly sensitive to the assumptions disclosed on the following page.

		2014		2013	
		Risk discount rate	Growth rate	Risk discount rate	Growth rate
1	**INTANGIBLE ASSETS** *continued*				
1.1	**Goodwill** *continued*				
	Assumptions				
	Ex-Metropolitan group	**11%**	**7%**	10%	6%
	Momentum Medical Scheme Administrators	**22%**	**6%**	22%	5%
	Momentum Manager of Managers	**15%**	**6%**	16%	6%
	Eris Property Group	**11%**	**3%**	10%	4%
	Guardrisk	**11%**	**2%**	–	–
	Providence	**11%**	**8%**	–	–

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 (2013: R30 million) in the current year. Changes in the assumptions relating to the other CGUs are considered less sensitive. The growth rate for Eris Property Group is after assumed lease terminations and vacancies.

			2014 Rm	2013 Rm
1.2	**Value of in-force business acquired**			
	Acquisition of insurance and investment contracts with DPF			
	Cost		**6 782**	6 644
	Accumulated amortisation		**(1 284)**	(963)
	Carrying amount		**5 498**	5 681
	Carrying amount at beginning		**5 681**	6 008
	Business combinations (refer to note 38)		**138**	–
	Amortisation charges		**(321)**	(327)
	Carrying amount at end		**5 498**	5 681
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Sage – Momentum Retail	2046	**742**	780
	Momentum Namibia – Metropolitan International	2051	**274**	302
	Metropolitan/Momentum merger			
	Metropolitan Retail	2041	**3 255**	3 386
	Metropolitan Employee Benefits	2041	**667**	712
	Metropolitan International	2041	**428**	501
	Guardrisk – Momentum Employee Benefits	2034	**122**	–
	Other		**10**	–
			5 498	5 681

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 acquisition of Guardrisk during March 2014 resulted in VIF of R128 million being raised.

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.

		2014 Rm	2013 Rm
1 INTANGIBLE ASSETS *continued*			
1.3 Customer relationships			
Cost		**3 723**	3 276
Accumulated amortisation		**(1 398)**	(1 005)
Accumulated impairment		**(3)**	(3)
Carrying amount		**2 322**	2 268
Carrying amount at beginning		**2 268**	2 416
Business combinations (refer to note 38)		**447**	276
Amortisation charges		**(393)**	(424)
Carrying amount at end		**2 322**	2 268
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan/Momentum merger			
Metropolitan Health	2021	**951**	1 099
Asset management – Momentum Investments	2021	**125**	213
Investment contracts – Momentum Employee Benefits	2021	**621**	656
Metropolitan Health Namibia Administrators – Metropolitan International	2019	**71**	84
Eris Property Group – Momentum Investments	2015	**18**	45
Momentum Short-term Insurance – Shareholder Capital	2027	**79**	112
Guardrisk – Momentum Employee Benefits	2024	**297**	–
Providence – Metropolitan Health	2023	**100**	–
Other		**60**	59
		2 322	2 268

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 Guardrisk (R307 million) and Providence (R112 million). The business combinations in the prior year relate to the acquisition of Eris Property Group (R118 million) and Momentum Short-term Insurance Company Ltd (R158 million). Other includes customer relationships relating to smaller acquisitions including African Life Health and Momentum Trust Ltd.

			2014 Rm	2013 Rm
1	**INTANGIBLE ASSETS** *continued*			
1.4	**Brands**			
	Cost		**1 183**	1 104
	Accumulated amortisation		**(198)**	(141)
	Carrying amount		**985**	963
	Carrying amount at beginning		**963**	1 019
	Business combinations (refer to note 38)		**79**	–
	Amortisation charges		**(57)**	(56)
	Carrying amount at end		**985**	963
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan brand	2031	**884**	938
	Momentum Namibia brand	2027	**23**	25
	Guardrisk brand	2034	**78**	–
			985	963

The acquisition of Guardrisk in the current year resulted in the recognition of the Guardrisk brand of R79 million. The Metropolitan brand was acquired and recognised as a result of the merger between Metropolitan and Momentum during December 2010.

			2014 Rm	2013 Rm
1.5	**Broker network**			
	Cost		**490**	135
	Accumulated amortisation		**(104)**	(70)
	Carrying amount		**386**	65
	Carrying amount at beginning		**65**	92
	Business combinations (refer to note 38)		**355**	–
	Amortisation charges		**(34)**	(27)
	Carrying amount at end		**386**	65
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan/Momentum merger	2016	**38**	65
	Guardrisk (non-life) – Momentum Employee Benefits	2029	**267**	–
	Guardrisk (life) – Momentum Employee Benefits	2034	**81**	–
			386	65

The acquisition of Guardrisk in the current year resulted in the recognition of broker networks of R355 million.

			2014 Rm	2013 Rm
1.6	**Deferred acquisition costs**			
	Cost		**4 058**	3 755
	Accumulated amortisation		**(1 999)**	(1 761)
	Carrying amount		**2 059**	1 994
	Carrying amount at beginning		**1 994**	1 899
	Additions		**330**	317
	Amortisation charges		**(267)**	(224)
	Exchange differences		**2**	2
	Carrying amount at end		**2 059**	1 994

		2014 Rm	2013 Rm
1	**INTANGIBLE ASSETS** *continued*		
1.7	**Computer software**		
	Cost	**584**	518
	Accumulated amortisation	**(76)**	(220)
	Accumulated impairment	**(27)**	(2)
	Carrying amount	**481**	296
	Carrying amount at beginning	**296**	253
	Additions	**218**	109
	Disposals	**–**	(2)
	Business combinations (refer to note 38)	**76**	–
	Amortisation charges	**(84)**	(65)
	Impairment charges	**(24)**	–
	Exchange differences	**(1)**	1
	Carrying amount at end	**481**	296

The health business system used by the Metropolitan International segment was impaired in the current year by R15 million (2013: Rnil) as a result of the number of lives under administration not growing as anticipated.

Nil book value items with a cost and accumulated amortisation of R227 million was scrapped during the year.

Internally developed software
Included in computer software is a carrying value of R148 million (2013: R89 million) representing internally developed software.

Material computer software
Included in computer software is R63 million (2013: R75 million) relating to the software used by Metropolitan Health which will be fully amortised by 2019. For impairment testing purposes, the recoverable amount was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets for 2015, approved by the board. Cash flows beyond the financial budgets available are extrapolated for five years, using an estimated growth rate of 8% (2013: 6%) for net profit and a cost of capital of 9% (2013: 9%).

The Shareholder Capital segment has computer software of R64 million (2013: Rnil) which will be fully amortised by 2021. For impairment testing purposes, a cost of capital of 12% was used to present value the future economic benefits of the software.

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

		2014 Rm	2013 Rm
2	**OWNER-OCCUPIED PROPERTIES**		
	Owner-occupied properties – at fair value	**1 714**	1 488
	Historical carrying value – cost model	**911**	770
	Fair value at beginning	**1 488**	1 464
	Additions	**4**	36
	Revaluations	**31**	28
	Depreciation charges	**(44)**	(40)
	Transfer from investment properties	**235**	–
	Fair value at end	**1 714**	1 488

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 30 June 2014. External valuations, by independent valuators, were obtained for 9% of the portfolio for the group in 2013.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Capitalisation rate	**9.0% – 12.0%**	**10%**	**65**	**(57)**
Discount rate	**14.0% – 16.0%**	**10%**	**30**	**(36)**

Capitalisation and discount rates (2013: 8.8% – 11.5% and 13.5% – 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 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.

		2014 Rm	2013 Rm
3	**PROPERTY AND EQUIPMENT**		
	Equipment and leasehold improvements		
	Cost	**370**	1 019
	Accumulated depreciation	**(53)**	(670)
	Accumulated impairment	**(2)**	(1)
	Carrying amount	**315**	348
	Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
	Carrying amount at beginning	**348**	321
	Additions	**159**	206
	Disposals	**(11)**	(8)
	Business combinations (refer to note 38)	**5**	2
	Depreciation charges	**(185)**	(174)
	Impairment charges	**(1)**	(1)
	Exchange differences	**–**	2
	Carrying amount at end	**315**	348

Nil book value items with a cost and accumulated depreciation of R765 million was scrapped during the year.

		2014 Rm	2013 Rm
4	**INVESTMENT PROPERTIES**		
	At 30 June investment properties comprised the following property types:		
	Industrial	**284**	237
	Shopping malls	**3 351**	2 936
	Office buildings	**3 818**	3 011
	Hotels	**261**	229
	Vacant land	**88**	77
	Other	**1**	40
	Property at valuation	**7 803**	6 530
	Accelerated rental income (refer to note 11)	**(128)**	(97)
		7 675	6 433
	Investment properties under development		
	Fair value at beginning	**521**	–
	Capitalised development expenditure	**410**	521
	Transfer to completed properties	**(931)**	–
	Fair value at end	**–**	521
	Completed properties		
	Fair value at beginning	**5 912**	5 415
	Capitalised subsequent expenditure	**86**	134
	Additions	**504**	137
	Disposals	**(64)**	(340)
	Business combinations (refer to note 38)	**–**	63
	Revaluations	**572**	325
	Change in accelerated rental income	**(31)**	(7)
	Transfer to owner-occupied properties	**(235)**	–
	Transfer from non-current assets held for sale (refer to note 24)	**–**	185
	Transfer from investment properties under development	**931**	–
	Fair value at end	**7 675**	5 912
	Total investment properties	**7 675**	6 433

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 2014, amounting to 37% (2013: 42%) 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% – 12.0%**	**10%**	**537**	**(232)**
Discount rate	**13.0% – 16.0%**	**10%**	**302**	**(390)**

Capitalisation and discount rates (2013: 7.8% – 11.0% and 12.8% – 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.

		2014 Rm	2013 Rm
5	**INVESTMENTS IN ASSOCIATES**		
	Equity-accounted associates	**179**	121
	Carrying amount at beginning	**121**	127
	Additions	**56**	41
	Business combinations (refer to note 38)	**–**	5
	Profit on change from associate to subsidiary	**–**	67
	Share of profit	**2**	12
	Transfer to subsidiary	**–**	(140)
	Other	**–**	9
	Carrying amount at end – non-current	**179**	121

Group interest in equity-accounted associates	% *	Carrying value Rm	Assets Rm	Liabilities Rm	Earnings Rm
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**
2013					
BVI 290 (Pty) Ltd (BVI 290)	50%	1	8	(7)	1
Global Doctors Network (Pty) Ltd (GDN)	50%	42	24	(3)	–
Khumo Property Management (Pty) Ltd (KPM)	50%	3	4	(1)	1
Q Mall (Pty) Ltd (QM)	50%	3	5	(5)	–
Siki Fox Properties (Pty) Ltd (SFP)	50%	3	22	(19)	3
C Shell 448 (Pty) Ltd (C Shell)	49%	1	5	(10)	(1)
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	–	2	–	–
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	25%	–	206	(234)	–
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	68	68	–	8
		121	344	(279)	12

* Effective group percentage held

- GDN (Metropolitan Health segment) provides services to the healthcare industry.
  During the current 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.
- 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 (Metropolitan 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.
- 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.
- KEIF fund relates to an associate held by a consolidated collective investment scheme.

		2014 Rm	Restated 2013 Rm
6	**FINANCIAL INSTRUMENTS**		
6.1	**Securities designated at fair value through income**		
	Equity securities	**100 790**	83 831
	Debt securities	**83 851**	84 090
	Funds on deposit and other money market instruments	**29 878**	21 544
	Unit-linked investments	**120 477**	100 036
		334 996	289 501
	Open-ended	**218 859**	184 850
	Current	**45 861**	34 615
	Non-current	**70 276**	70 036
	1 to 5 years	**33 796**	29 868
	5 to 10 years	**12 962**	13 755
	> 10 years	**23 518**	26 413
		334 996	289 501

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.

	2014 Rm	2013 Rm
Scrip lending (included above)		
Carrying value of securities on loan		
Local listed equity securities	**2 069**	3 555

Refer to note 50 for detail on collateral held.

		2014 Rm	Restated 2013 Rm
6	**FINANCIAL INSTRUMENTS** *continued*		
6.2	**Investments in associates designated at fair value through income**		
	Collective investment schemes (refer to Annexure B)	**11 900**	13 031

		2014 Assets Rm	2014 Liabilities Rm	Restated 2013 Assets Rm	Restated 2013 Liabilities Rm
6.3	**Derivative financial instruments**				
	Held for trading	**2 347**	**1 853**	3 140	2 547
	Held for hedging purposes	**15**	**–**	33	–
	Fair value hedges	**15**	**–**	33	–
		2 362	**1 853**	3 173	2 547
	Current	**790**	**272**	582	341
	Non-current	**1 572**	**1 581**	2 591	2 206
		2 362	**1 853**	3 173	2 547

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.

	2014 Effective exposure Rm	2014 Assets Rm	2014 Liabilities Rm	Restated 2013 Effective exposure Rm	Restated 2013 Assets Rm	Restated 2013 Liabilities Rm
6 FINANCIAL INSTRUMENTS *continued*						
6.3 Derivative financial instruments *continued*						
Derivatives held for trading						
Equity derivatives		238	308		104	238
Options, OTC	(103)	150	137	(74)	98	90
Options, exchange traded	(1 157)	2	–	(729)	6	–
Futures, OTC	–	–	–	106	–	–
Futures, exchange traded	711	67	171	436	–	145
Swaps, OTC	19	19	–	(3)	–	3
Interest rate derivatives		2 098	1 259		2 983	1 987
Swaps, OTC	835	2 092	1 257	990	2 972	1 982
Forward rate agreement, OTC	(1 315)	6	2	(1 019)	11	5
Bonds		9	–		51	74
Options, exchange traded	49	–	–	11	–	–
Futures, OTC	327	8	–	(191)	–	14
Futures, exchange traded	2 100	1	–	117	–	8
Swaps, OTC	–	–	–	(1)	51	52
Credit derivatives		2	–		2	–
Swaps, OTC	2	2	–	2	2	–
Currency derivatives		–	286		–	248
Futures, OTC	–	–	–	(95)	–	2
Futures, exchange traded	(283)	–	–	–	–	–
Swaps, OTC	(286)	–	286	(246)	–	246
Derivatives held for trading		2 347	1 853		3 140	2 547
Derivatives held for hedging purposes						
Interest rate swaps	15	15	–	33	33	–
Total derivative financial instruments		2 362	1 853		3 173	2 547

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 19) 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.

		2014 Rm	2013 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	**(18)**	(17)
	2006 Subordinated callable notes	**17**	11
	Net realised and fair value losses	**(1)**	(6)
	Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
	On hedging instrument	**(16)**	(20)
	On hedged items attributable to the hedged risk: 2006 callable notes	**21**	24
	Ineffective portion recognised in Net realised and fair value gains	**5**	4
6.4	**Available-for-sale**		
	Equity securities		
	Local listed	**3**	22
	Foreign listed	**87**	–
	Unlisted	**4**	24
	Debt securities	**31**	893
	Funds on deposit and other money market instruments	**–**	9
	Unit-linked investments	**4**	5
		129	953
	Open-ended	**7**	31
	Current	**118**	829
	Non-current	**4**	93
	1 to 5 years	**4**	86
	5 to 10 years	**–**	4
	> 10 years	**–**	3
		129	953

General

The debt securities relate to listed securities of R31 million (2013: R451 million) and unlisted securities of Rnil (2013: R442 million).

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.

	2014 Rm	2013 Rm
6 FINANCIAL INSTRUMENTS *continued*		
6.5 Held-to-maturity		
Funds on deposit and other money market instruments – non-current	**85**	69
Debt securities – non-current	**15**	–
	100	69

	2014 Rm	Restated 2013 Rm
7 LOANS AND RECEIVABLES		
Accounts receivable	**2 444**	2 365
Unsettled trades	**772**	1 190
Loans	**2 370**	2 142
Staff loans	**27**	31
Loans due from associates	**134**	100
Preference shares	**57**	51
Empowerment partners	**355**	322
Other related party loans	**48**	8
Less: provision for impairment on related party loans	**(59)**	(33)
Due from agents, brokers and intermediaries	**345**	297
Less: provision for impairment	**(112)**	(111)
Policy loans	**1 421**	1 326
Other	**154**	151
	5 586	5 697
Current	**4 970**	5 045
Non-current	**616**	652
	5 586	5 697
Reconciliation of aggregated provision accounts		
Balance at beginning	**144**	111
Additional provision	**45**	77
Business combinations	**–**	3
Utilised/reversed during year	**(18)**	(47)
Balance at end	**171**	144

Terms and conditions of material loans

- Loans due from associates include:
  - R32 million loan to Racecourse Mall (Pty) Ltd. Interest is charged at 4.75%. The loan is secured by the underlying property in the company.
  - R55 million (2013: R62 million) loans to Mettle Property Solutions Securitisation (Pty) Ltd. Interest is charged at JIBAR plus 3.5%; 6% or 10% (nacq). The repayment and security of the loan is linked to the underlying loan investment.
- The loans to empowerment partners of R355 million includes a loan of R323 million at 30 June 2014 (2013: R322 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% (2013: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.
- Included in other loans and receivables in the prior year is a loan to Racecourse Mall (Pty) Ltd of R37 million. In the current year, the loan has been included in loans due from associates (R32 million) as the company is now an associate.

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.

		2014 Rm	Restated 2013 Rm
8	**REINSURANCE CONTRACTS**		
	Reinsurance asset relating to long-term insurance	**708**	738
	Reinsurance asset relating to cell captive business	**1 361**	182
	Prepaid reinsurance	**507**	425
		2 576	1 345
	Balance at beginning	**1 345**	1 350
	Movement charged to income statement	**332**	21
	Attributable to non-cell captive business	**1**	4
	Attributable to cell captive business	**331**	17
	Business combinations (refer to note 38)	**762**	–
	Revaluation on insurance contracts	**2**	(32)
	Cell captive premiums	**85**	–
	Exchange differences	**2**	6
	Other	**48**	–
	Balance at end	**2 576**	1 345
	Current	**2 215**	837
	Non-current	**361**	508
		2 576	1 345

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.

		2014 Rm	2013 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	**263**	124
	Deferred tax liability	**(4 281)**	(3 917)
		(4 018)	(3 793)
	Deferred tax is made up as follows:		
	Accruals and provisions	**139**	171
	Accelerated wear and tear	**(7)**	(14)
	Revaluations	**(1 587)**	(1 402)
	Deferred tax on intangible assets as a result of business combinations	**(2 533)**	(2 482)
	Deferred revenue liability	**146**	115
	Difference between published and statutory policyholder liabilities	**692**	652
	Tax losses	**191**	50
	Negative rand reserves	**(395)**	(398)
	Deferred acquisition costs	**(561)**	(547)
	Prepayments	**(4)**	(1)
	Other	**(99)**	63
		(4 018)	(3 793)
	Current	**(136)**	(104)
	Non-current	**(3 882)**	(3 689)
		(4 018)	(3 793)

		2014 Rm	2013 Rm
9	**DEFERRED INCOME TAX** *continued*		
	Movement in deferred tax		
	Balance at beginning	**(3 793)**	(3 827)
	Charge to the income statement	**(25)**	100
	Accruals and provisions	**(37)**	97
	Accelerated wear and tear	**7**	(6)
	Revaluations	**(171)**	(132)
	Deferred tax on intangible assets as a result of business combinations	**296**	197
	Deferred revenue liability	**9**	6
	Difference between published and statutory policyholder liabilities	**40**	(67)
	Tax losses	**(34)**	2
	Negative rand reserves	**3**	(21)
	Deferred acquisition costs	**6**	(30)
	Prepayments	**(3)**	1
	Other	**(141)**	53
	Charge to other comprehensive income (refer to note 14)	**(12)**	3
	Business combinations (refer to note 38)	**(132)**	(74)
	Exchange differences	**4**	5
	Other	**(60)**	–
	Balance at end	**(4 018)**	(3 793)
	Deferred tax asset on available tax losses and credits not provided for	**233**	226

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 R191 million (2013: R50 million) raised due to tax losses, is a deferred tax asset of R50 million (2013: R44 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 R276 million (2013: R183 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.

Deferred tax on the revaluation of owner-occupied properties has been calculated using a combination of the normal South African income tax rate and the capital gains tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R34 million (2013: R30 million) lower.

		2014 Rm	2013 Rm
10	**PROPERTIES UNDER DEVELOPMENT**		
	Properties under development resulted from the acquisition of Eris Property Group in the prior year and comprise:		
	Costs incurred on projects	**1 275**	1 347
	Funding received	**(1 023)**	(1 249)
	Work in progress balance	**252**	98

		2014 Rm	Restated 2013 Rm
11	**INSURANCE AND OTHER RECEIVABLES**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 669**	2 731
	Insurance contract holders	**2 434**	1 964
	Investment contract holders with DPF	**16**	77
	Cell captives	**688**	156
	Less: provision for impairment	**(54)**	(50)
	Due from reinsurers	**585**	584
	Accelerated rental income (refer to note 4)	**128**	97
	Other	**16**	–
		3 813	2 828
	Current	**3 668**	2 670
	Non-current	**145**	158
		3 813	2 828
	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	**16 272**	12 062
	Funds on deposit and other money market instruments – maturity < 90 days	**12 603**	10 213
		28 875	22 275

Included in cash and cash equivalents is Rnil (2013: R1 645 million) relating to the collateral held in terms of scrip lending agreements. Refer to note 6.1.

13 SHARE CAPITAL AND SHARE PREMIUM

With effect from 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.

		2014 Rm	2013 Rm
13	**SHARE CAPITAL AND SHARE PREMIUM** *continued*		
	Issued share capital *continued*		
	Balance at beginning	13 803	13 814
	Treasury shares held on behalf of contract holders	(12)	(4)
	Share buy-back	–	(7)
		13 791	13 803
	Share capital	9	9
	Share premium	13 782	13 794
		13 791	13 803

MMI Holdings Ltd ordinary shares	2014 Million	2013 Million
Total issued MMI Holdings Ltd shares at 30 June	1 570	1 504
Conversion of preference shares	–	66
Total ordinary shares in issue	1 570	1 570
Treasury shares held on behalf of contract holders	(14)	(14)
Basic number of shares in issue	1 556	1 556
Convertible redeemable preference shares	34	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 2014 (2013: 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 20.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 15.

Dividends

For detail of dividends declared and paid during the year, refer to page 95 of the directors' report.

		2014 Rm	2013 Rm
14	**OTHER COMPONENTS OF EQUITY**		
(a)	Land and building revaluation reserve	**561**	534
(b)	Foreign currency translation reserve	**179**	139
(c)	Revaluation of available-for-sale investments	**3**	11
(d)	Non-distributable reserve	**16**	4
(e)	Employee benefit revaluation reserve	**98**	–
(f)	Fair value adjustment for preference shares issued by MMI Holdings Ltd	**940**	940
(g)	Equity-settled share-based payment arrangements	**5**	3
		1 802	1 631
	Movements in other reserves		
(a)	**Land and building revaluation reserve**		
	Balance at beginning	**534**	533
	Earnings directly attributable to other components of equity	**29**	12
	Revaluation	**41**	9
	Deferred tax on revaluation	**(12)**	3
	Transfer to retained earnings	**(2)**	(11)
	Balance at end	**561**	534
(b)	**Foreign currency translation reserve**		
	Balance at beginning	**139**	74
	Currency translation differences	**40**	65
	Balance at end	**179**	139
(c)	**Revaluation of available-for-sale investments**		
	Balance at beginning	**11**	11
	Fair value (loss)/gain – gross	**(8)**	2
	Gains transferred to net realised gains	**–**	(2)
	Balance at end	**3**	11
(d)	**Non-distributable reserve**		
	Balance at beginning	**4**	11
	Transfer from retained earnings	**5**	3
	Other	**7**	(10)
	Balance at end	**16**	4
(e)	**Employee benefit revaluation reserve**		
	Remeasurement of post-employment benefit obligations	**98**	–
	Balance at end	**98**	–
(f)	**Fair value adjustment for preference shares issued by MMI**		
	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	**3**	3
	BEE cost	**2**	–
	Balance at end	**5**	3

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.

	2014 Rm	2013 Rm
15 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by MMIGL		
Balance at beginning	–	500
Total comprehensive income	–	32
Dividend paid	–	(32)
Share buy-back	–	(500)
Balance at end	–	–

These preference shares were acquired by MMI Holdings Ltd from FirstRand Ltd in March 2013 for R388 million. These shares have therefore been eliminated at a group level and the difference between the carrying value and the purchase price, being R112 million, was recognised in equity in the prior year. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate.

	2014 Rm	Restated 2013 Rm
16 INSURANCE CONTRACTS		
16.1 Long-term insurance contracts		
16.1.1 Long-term insurance contract liabilities	105 509	96 631
16.1.2 Liabilities to third-party cell captive owners	530	331
	106 039	96 962
Capitation contracts	8	11
Total	106 047	96 973
Open-ended	7 273	9 358
Current	14 358	11 725
Non-current	84 416	75 890
	106 047	96 973
Movement in long-term insurance contracts		
16.1.1 Long-term insurance contract liabilities		
Balance at beginning	96 631	87 985
Transfer to policyholder liabilities under insurance contracts	8 219	8 501
Increase in retrospective liabilities	11 009	7 920
Unwind of discount rate	2 355	2 517
Expected release of margins	(2 834)	(2 307)
Expected cash flows	(5 117)	(3 956)
Change in economic assumptions	356	222
Change in non-economic assumptions	490	288
New business	2 511	3 210
Experience variances	(551)	607
Revaluation liability	(7)	(13)
Net exchange differences	(19)	148
Business combinations (refer to note 38)	716	–
Other	(31)	10
Balance at end	105 509	96 631

	2014 Rm	Restated 2013 Rm
16 INSURANCE CONTRACTS *continued*		
16.1 Long-term insurance contracts *continued*		
16.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	**331**	399
Charge to the income statement	**(433)**	(414)
Business combinations (refer to note 38)	**192**	–
Premiums	**2 164**	1 526
Reinsurance premiums	**34**	(23)
Claims paid	**(447)**	(357)
Reinsurance recoveries	**44**	20
Changes in share capital, dividends and other items relating to cell captives	**(1 355)**	(820)
Balance at end	**530**	331

	2014 Rm	2013 Rm
16.2 Short-term insurance contracts		
16.2.1 Unearned premium provision	**2 797**	–
16.2.2 Outstanding claims	**1 396**	–
16.2.3 Liabilities to third-party cell captive owners	**1 303**	–
Total	**5 496**	–
Open-ended	**1 304**	–
Current	**3 901**	–
Non-current	**291**	–
	5 496	–
Movement in short-term insurance contracts		
16.2.1 Unearned premium provision		
Balance at beginning	**–**	–
Business combinations (refer to note 38)	**2 954**	–
Movement in unearned premium provision		
Premium income received	**696**	–
Recognition of premium income	**(853)**	–
Balance at end	**2 797**	–
16.2.2 Outstanding claims		
Balance at beginning	**–**	–
Business combinations (refer to note 38)	**1 003**	–
Movement in outstanding claims		
Increase in outstanding claims	**393**	–
Balance at end	**1 396**	–
16.2.3 Liabilities to third-party cell captive owners		
Balance at beginning	**–**	–
Charge to the income statement	**(72)**	–
Cell tax	**(110)**	–
Net fair value gains on assets at fair value through income	**38**	–
Business combinations (refer to note 38)	**1 196**	–
Premiums	**1 169**	–
Reinsurance premiums	**(230)**	–
Claims paid	**(368)**	–
Reinsurance recoveries	**110**	–
Expenses incurred	**(292)**	–
Change in policyholder liabilities under insurance contracts	**(13)**	–
Change in reinsurance contract provisions	**(51)**	–
Dividends paid	**(146)**	–
Balance at end	**1 303**	–

	2014 Rm	Restated 2013 Rm
17 INVESTMENT CONTRACTS		
17.1 Investment contracts with DPF	**25 405**	24 937
17.2 Investment contracts designated at fair value through income	**201 651**	159 776
17.2.1 Investment contract liabilities designated at fair value through income	**194 362**	158 239
17.2.2 Liabilities to first party cell captive owners	**7 289**	1 537
Total investment contract liability	**227 056**	184 713
Movement in investment contracts with DPF		
17.1 Investment contracts with DPF		
Balance at beginning	**24 937**	23 696
Transfer to policyholder liabilities under investment contracts with DPF	**468**	1 239
Increase in retrospective liabilities	**791**	1 326
Unwind of discount rate	**(4)**	9
Expected release of margins	**(195)**	(235)
Expected cash flows	**(567)**	(644)
Change in economic assumptions	**(39)**	(3)
Change in non-economic assumptions	**(15)**	(102)
New business	**499**	885
Experience variances	**(2)**	3
Revaluation liability	**(1)**	–
Net exchange differences	**1**	2
Balance at end	**25 405**	24 937
Open-ended	**19 068**	17 742
Current	**667**	1 546
Non-current	**5 670**	5 649
	25 405	24 937
Movement in investment contracts designated at fair value through income		
17.2 Investment contracts designated at fair value through income		
17.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	**158 239**	133 010
Business combinations (refer to note 38)	**1 600**	–
Contract holder movements	**34 471**	25 229
Deposits received	**33 221**	33 656
Contract benefit payments	**(29 631)**	(29 181)
Fees on investment contracts	**(1 668)**	(1 856)
Foreign exchange movement	**(12)**	3
Fair value adjustment to policyholder liabilities under investment contracts	**32 632**	22 607
Changes in share capital, dividends and other items relating to cell captives	**(71)**	–
Net exchange differences	**52**	–
Balance at end	**194 362**	158 239
17.2.2 Liabilities to first party cell captive owners		
Balance at beginning	**1 537**	1 533
Business combinations (refer to note 38)	**5 698**	–
Contract holder movements	**54**	4
Deposits received	**169**	19
Contract benefit payments	**(564)**	(123)
Fees on investment contracts	**(43)**	–
Foreign exchange movement	**12**	–
Fair value adjustment to policyholder liabilities under investment contracts	**327**	108
Changes in share capital, dividends and other items relating to cell captives	**153**	–
Balance at end	**7 289**	1 537
Open-ended	**105 557**	82 786
Current	**4 473**	8 929
Non-current	**91 621**	68 061
	201 651	159 776

18 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 117 to 119.

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 2014 would have been R14 161 million (restated 2013: R12 508 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax; the comparative has therefore been restated in order to be consistent.

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 2013 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Annual mortality investigations are carried out, with the most recent investigation being in respect of the period to December 2013 for MMIGL retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation for the period 2008 to 2013, completed in May 2014 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on the PA 90 standard mortality tables, adjusted for experience, less two years in age. The most recent investigation was completed in May 2014. The Momentum Retail annuitant mortality basis is derived from the RMV 92 and RFV 92 standard mortality tables, adjusted for experience. The most recent investigations for Momentum Retail and Momentum Employee Benefits were in respect of the period to December 2013. 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, December 2013 for Momentum Retail and February 2014 for Momentum Employee Benefits.
- 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, 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 2013.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2013.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

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 2015 financial year and allows for escalation at the assumed expense inflation rate of 6.7% (2013: 6.1%). 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% (2013: + 3.5%)
  - Property rate: gilt rate + 1.0% (2013: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2013: + 0.5%)
  - Cash rate: gilt rate – 1.0% (2013: – 1.0%)
- An inflation rate of 6.7% p.a. for ZAR-denominated business was used to project future renewal expenses (2013: 6.1% p.a.). This inflation rate was derived by deducting the assumed long-term real return of 1.8% (2013: 1.8%) from the risk-free rate. The assumed long-term real yield is based on the 10-year real return on CPI-linked government bonds with considerable smoothing applied to limit the volatility of this assumption.
- A rate of 7.7% p.a. (2013: 7.1% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2013: 1.0% p.a.).

The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2014	2013
Risk discount rate	**10.8%**	10.2%
Gilt rate – risk-free investment return	**8.5%**	7.9%
Assumed investment return for individual smoothed bonus business	**10.7%**	10.1%
Renewal expense inflation base rate	**6.7%**	6.1%

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 underdistribution 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.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2014. 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
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**
2013	5.6	6.1	6.6	6.9	7.2	8.0	8.7	9.4	9.9	10.3	10.6	10.8

The following instruments have been valued by the model:

	2014		2013	
Instrument	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**4.7%**	**16.7%**	7.8%	23.5%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**0.9%**	**21.1%**	2.4%	27.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.03930 (2013: 1.02690)	**6.2%**	**15.9%**	8.9%	22.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.5%**	**22.5%**	11.0%	26.1%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**13.6%**	**21.2%**	17.9%	24.4%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.29410 (2013: 1.23450)	**16.3%**	**20.8%**	18.6%	24.2%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**2.8%**	**29.8%**	4.2%	32.7%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**11.5%**	**29.5%**	15.3%	32.4%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.98730 (2013: 3.52670)	**30.2%**	**29.5%**	31.2%	32.3%
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 theunderlying index back to these weights taking place annually	**6.2%**	**13.2%**	9.1%	15.2%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.4%**	**N/A**	0.5%	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 allowance is made for any assessed losses in the contract holder tax funds.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

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 2014 by R457 million (2013: R381 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – negative R388 million (2013: negative R169 million).
  - Experience basis changes – negative R87 million (2013: negative R186 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – positive R18 million (2013: negative R26 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.

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.

2014	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)	**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	**192 788**	**192 788**	**192 793**	**192 797**	**192 798**	**194 018**
Subtotal	**322 652**	**321 468**	**321 747**	**322 801**	**321 380**	**325 538**
Cell captive business	**15 947**					
Total	**338 599**	**321 468**	**321 747**	**322 801**	**321 380**	**325 538**
Restated 2013						
Insurance business						
Retail insurance business (excluding annuities)	58 887	58 043	58 393	59 084	57 536	59 142
Annuities (retail and employee benefits)	33 648	33 526	33 574	33 646	33 959	35 359
Employee benefits business (excluding annuities)	3 940	3 931	3 930	3 930	3 952	3 984
Investment with DPF business	24 883	24 860	24 924	24 890	24 883	24 930
Investment business	158 239	158 239	159 772	158 245	158 248	159 084
Subtotal	279 597	278 599	280 593	279 795	278 578	282 499
Cell captive business	2 089					
Total	281 686	278 599	280 593	279 795	278 578	282 499

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.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis *continued*

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% (2013: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R106 million (2013: R190 million) in the before-tax earnings of the group.

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

		2014 Rm	Restated 2013 Rm
19	**FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME**		
	Collective investment scheme liabilities	**22 313**	25 471
	Subordinated call notes	**2 573**	1 051
	Carry positions	**4 851**	7 649
	Preference shares	**1 001**	–
	Other	**63**	–
		30 801	34 171
	Current	**26 414**	29 137
	Non-current	**4 387**	5 034
		30 801	34 171

- 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 3-month JIBAR interest rate.

    The coupon rate is floating at the 3-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).

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

- 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 15 January 2014, Fitch Ratings upgraded MMIGL's subordinated debt to "A+(zaf)" from "A(zaf)".

MMIGL has sufficient cash to cover the debt.

- Carry positions (secured) – R2 592 million (2013: R3 742 million) relates to a carry position with Rand Merchant Bank 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 R2 797 million (2013: R3 784 million).
- Carry positions (secured) – R1 117 million (2013: R2 150 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R1 232 million (2013: R2 198 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 is R58 million of future contingent payments relating to Providence. Refer to note 38.

		2014 Rm	2013 Rm
20	**FINANCIAL LIABILITIES AT AMORTISED COST**		
	Borrowings		
	Cumulative redeemable convertible preference shares	**313**	313
	Subordinated redeemable debt	**511**	511
	Finance lease liabilities	**2**	3
	Other	**637**	419
		1 463	1 246
	Current	**530**	425
	Non-current	**933**	821
		1 463	1 246

20.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, has 34 381 139 A3 cumulative convertible redeemable preference shares issued to Kagiso Tiso Holdings (KTH), the group's strategic BEE partner. 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. An annual dividend of 132 cents per share is payable 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).

20 FINANCIAL LIABILITIES AT AMORTISED COST *continued*

20.2 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 are 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 has an option to redeem the debt from 15 December 2014 and the ultimate maturity date is 15 December 2019.

With the amalgamation of the licences in the prior year, the debt is now issued by MMIGL. MMIGL has sufficient cash to cover the debt.

20.3 Other

Included in other financial liabilities at amortised cost is a R463 million (2013: R375 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.

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
21.1 Employee benefit assets						
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

	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*						
2013						
Present value of funded obligation	(3)	(2)	–	(458)	(2)	(465)
Fair value of plan assets	7	205	112	229	13	566
	4	203	112	(229)	11	101
Applied limit	(3)	–	–	(75)	–	(78)
Net asset/(liabilities) recognised	1	203	112	(304)	11	23
MSPF liability transferred to note 21.2	–	–	–	304	–	304
Net asset recognised	1	203	112	–	11	327
Movement in present value of funded obligation						
Balance at beginning	4	53	–	455	10	522
Current service costs	–	–	–	1	–	1
Interest expense	–	5	–	38	1	44
Actuarial gains	–	(4)	–	(5)	–	(9)
Benefits paid	(1)	(52)	–	(32)	(9)	(94)
Members contributions	–	–	–	1	–	1
Balance at end	3	2	–	458	2	465
Current	–	–	–	32	–	32
Non-current	3	2	–	426	2	433
	3	2	–	458	2	465
Movement in fair value of plan assets						
Balance at beginning	8	244	102	206	17	577
Return on plan assets	–	13	8	33	2	56
Actuarial gains/(losses)	–	–	10	(12)	–	(2)
Employer contributions	–	–	(8)	1	(2)	(9)
Members contributions	–	–	–	1	–	1
Benefits paid	(1)	(52)	–	–	(7)	(60)
Transfers	–	–	–	–	3	3
Balance at end	7	205	112	229	13	566
Current	–	–	–	60	–	60
Non-current	7	205	112	169	13	506
	7	205	112	229	13	566

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 previous page) are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of these funds indicated that all three funds were found to be in a sound financial position.

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% (2013: 8.6% – 8.7%)**
Expected rate of return on plan assets	**9.0% (2013: 5.5% – 8.6%)**
Salary inflation rate	**6.0% – 7.0% (2013: 6.3% – 6.5%)**
Net post-retirement interest rate	**2.0% (2013: 2.1%)**
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. The intention is to wind-up the fund during the next financial year. The liability at 30 June 2014 is based on the transfer values 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 2014. 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*

Metropolitan Staff Pension Fund (MSPF) *continued*

During the June 2012 year, the MSPF purchased a with-profit annuity product underwritten by Metropolitan Life Ltd, now MMIGL after the amalgamation of licences, for R450 million in order to provide a better match for the pensioner liabilities, which remained part of the liabilities of the MSPF at that stage. Essentially, this was an investment decision made by the trustees of the MSPF to manage a portion of the assets of the MSPF using the dynamic hedging methodology offered by the with-profit annuity product. However, in terms of IFRS, such policies do not meet the definition of plan assets and essentially the risk has effectively been passed back to MMIGL for the funding of the liability to this amount. This is because MMIGL has underwritten a policy for the entities' own pension obligations. Such policies are eliminated if within the same entity and therefore the insurance policy asset (within the MSPF) has been eliminated against the insurance policy liability (within MMIGL). As a result, for previous disclosures the net liability to MSPF has been increased, but this is supported by assets held to fund this obligation which are disclosed elsewhere in the statement of financial position. During the 2014 financial year, the pensioners were fully outsourced to MMIGL and the pensioner liability was settled by the MSPF. Therefore, no similar adjustment is required as at 30 June 2014 in respect of the R450 million. During June 2014, the MSPF purchased a further with-profit annuity product underwritten by MMIGL for R98 million (a further R12 million at the start of July 2014 to bring the total to R110 million) along similar lines to the initial R450 million investment, as an investment of the MSPF's ESA. A similar adjustment is therefore made in respect of this R98 million as was made in previous disclosures in respect of the R450 million (before the pensioner liability transferred out of the MSPF).

In terms of the funding, as at 30 June, the following asset classes are included in the with-profit annuity product investment portfolio which supports the obligations under the insurance policy:

Asset class	2014 %	2013 %
Local equities	**3**	28
Local bonds	**35**	53
Local property	**1**	5
Foreign assets	**1**	7
Local cash	**60**	7
	100	100

The key valuation assumptions for the MSRF and MSPF are:

Assumptions	Base assumption
Valuation rate of interest	**9% (2013: 9%)**
Expected rate of return	**9% – based on the valuation rate of interest (2013: 9%)**
Salary inflation rate	**7% (2013: 7%)**
Net post-retirement interest rate	**3% (2013: 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**

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

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

The plan assets as a percentage (%) comprise:	MLPF	SSPF	SGPF	MSRF	MSPF
2014					
Equity securities – quoted (active market)	–	–	–	–	2
Debt securities					
Quoted (active market)	–	–	–	–	2
Quoted (inactive market) and unquoted	–	–	–	–	17
Foreign assets – quoted (active market)	–	–	–	–	1
Cash and cash equivalents	100	100	96	100	78
Insurance policy	–	–	4	–	–
	100	100	100	100	100
2013					
Equity securities	–	–	–	42	33
Debt securities	–	–	–	16	43
Property	–	–	–	12	7
Foreign assets	–	–	–	26	9
Cash and cash equivalents	100	100	100	4	6
Socially responsible investments	–	–	–	–	2
	100	100	100	100	100

Income statement movement and future contributions

The total movement of R66 million (2013: R16 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.

		2014 Rm	2013 Rm
21.2	**Employee benefit obligations**		
	(a) Post-retirement medical benefits	299	279
	(b) Share scheme obligations	26	13
	(c) Leave pay liability	236	216
	(d) Staff and management bonuses	164	148
	(e) Cash-settled arrangements	521	368
		1 246	1 024
	MSPF liability transferred from note 21.1	–	304
	Total employee benefit obligations	1 246	1 328
	Current	448	356
	Non-current	798	972
		1 246	1 328

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

	2014 Rm	2013 Rm
21 **EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*		
21.2 **Employee benefit obligations** *continued*		
(a) **Post-retirement medical benefits**		
Balance at beginning – unfunded	279	288
Current service costs	1	3
Interest expense	24	24
Actuarial losses/(gains)	15	(13)
Employer contributions	(16)	(17)
Benefits paid	(4)	(6)
Balance at end – unfunded	299	279

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	Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	8% (2013: 8%)	4%	(21)	25
Defined contribution fund	8% (2013: 8%)	1%	(12)	15
Valuation rate of interest/discount rate	9% (2013: 9%)			
Administration fee inflation	7% (2013: 6%)			
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			

Maturity profile

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

	2014 Rm	2013 Rm
Current	21	10
Non-current	278	269
	299	279

The weighted average duration of the post-retirement medical benefits obligation is 14.5 years.

		2014 Rm	2013 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*		
21.2	**Employee benefit obligations** *continued*		
(b)	**Share scheme obligations**		
	Metropolitan International subsidiaries' share schemes	15	4
	MMIGL share schemes	9	9
	Other	2	–
		26	13
	Metropolitan International subsidiaries' share schemes		
	Balance at beginning	4	4
	Current service costs	8	2
	Interest costs	1	–
	Actuarial gains	2	–
	Benefits paid	–	(2)
	Balance at end	15	4

The group assumed a liability in respect of its obligation to purchase shares in certain international subsidiaries from employees of those companies. The liability is measured with reference to the applicable embedded value that will be used to repurchase the shares.

The assumptions used in calculating the expenses and liabilities for these schemes were:

- risk-free rates ranging from 8.0% to 8.5% (2013: 7.8% to 8.3%)
- expected growth rates between 9.0% and 11.3% (2013: 8.8% and 10.8%)
- forfeiture rates ranging from 2.2% to 9.0% (2013: 1.7% to 16.6%)
- a continuously compounded dividend yield of 6.5% (2013: 0%)

		2014 Rm	2013 Rm
	MMIGL share schemes		
	These are schemes in the ex-Momentum group still linked to FirstRand Ltd shares.		
	Balance at beginning and end	9	9
(c)	**Leave pay liability**		
	Balance at beginning	216	204
	Business combinations (refer to note 38)	6	5
	Provisions for current year	28	28
	Paid during year	(14)	(21)
	Balance at end	236	216
(d)	**Staff and management bonuses**		
	Balance at beginning	148	58
	Business combinations (refer to note 38)	16	21
	Provisions for current year	167	210
	Paid during year	(156)	(130)
	Reversal of prior year provision	(11)	(11)
	Balance at end	164	148

		2014 Rm	2013 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*		
21.2	**Employee benefit obligations** *continued*		
(e)	**Cash-settled arrangements**		
	Retention and remuneration schemes		
	Balance at beginning	**368**	320
	Additional provisions	**391**	264
	Benefits paid	**(238)**	(216)
	Balance at end	**521**	368
	Current	**277**	179
	Non-current	**244**	189
		521	368

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 are made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares. Allocations made 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 is 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 vest equally over the third, fourth and fifth anniversary. The scheme is cash-settled and no MMI Holdings Ltd shares will be issued in settlement of this obligation.

Metropolitan share schemes

As a result of the merger between Metropolitan and Momentum, the group acquired the obligations under the ex-Metropolitan group cash-settled schemes.

Metropolitan Long-term Replacement Scheme (MetLTRS)

This scheme was for all participants of the former Metropolitan Long-term Incentive Scheme who concluded an agreement with MMI Holdings Ltd not to receive an accelerated payment under that scheme on the merger of Metropolitan and Momentum but rather to form part of the MetLTRS scheme. The final tranche (961 000 units) was redeemed in December 2012.

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 is 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 is a phantom scheme in that a participant is 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 vest 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 is 1 December 2013 or 1 December 2014.

The cash sum is only paid out if the employee remains 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) have been met.

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(e) Cash-settled arrangements *continued*

MMI share schemes *continued*

MMI Long-term Incentive Plan (MMI LTIP)

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

The performance units have performance criteria based on minimum hurdles related to the return on 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 remains cash-settled.

MSS	2014 '000	2013 '000
Options in force at 1 July	14 949	10 754
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 1 903
Options granted during year	–	5 597
Granted at prices ranging from (cents)	–	2 100 – 2 256
Options exercised/released during year	(1 307)	(573)
Market value of range at date of exercise/release (cents)	2 255 – 2 471	2 100 – 2 256
Options cancelled/lapsed during year	(1 200)	(829)
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 1 903
Options in force at 30 June	12 442	14 949
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 2 256
Number of participants	411	466
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2013/2014	–	1 475
Financial year 2014/2015	3 100	3 395
Financial year 2015/2016	4 169	4 559
Financial year 2016/2017	3 427	3 654
Financial year 2017/2018	1 746	1 866
Total outstanding shares	12 442	14 949

	2014	2013
Valuation assumptions of MSS:		
Share price	R26.15	R21.24
Volatility	9.85% – 13.12%	10.07% – 11.91%
Dividend yield	5.09%	5.17%
Forfeiture rate	5.00%	5.00%
Risk-free yield curve	4.71% – 7.24%	7.01% – 8.02%

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(e) Cash-settled arrangements *continued*

	MomCSP '000	MMI LTRAS '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000
Units in force at 1 July 2012	9 776	8 582	5 327	7 166	–
Units granted during year	–	–	5 177	6 909	–
Units exercised/released during year	(8 150)	(168)	(40)	(53)	–
Market value of range at date of exercise/release (cents)	1 959 – 2 459	1 897 – 2 370	1 849 – 2 370	1 849 – 2 370	–
Units cancelled/lapsed during year	(201)	(381)	(665)	(694)	–
Units in force at 30 June 2013	**1 425**	**8 033**	**9 799**	**13 328**	**–**
Units granted during year	**–**	**–**	**6 278**	**7 201**	**1 749**
Units exercised/released during year	**(1 379)**	**(7 483)**	**(47)**	**(38)**	**–**
Market value of range at date of exercise/release (cents)	**2 181 – 2 690**	**2 530**	**2 080 – 2 563**	**2 080 – 2 563**	**–**
Units cancelled/lapsed during year	**(16)**	**(306)**	**(1 057)**	**(823)**	**–**
Units in force at 30 June 2014	**30**	**244**	**14 973**	**19 668**	**1 749**
Number of participants (2013)	228	63	539	483	–
Number of participants (2014)	**1**	**1**	**610**	**503**	**373**

Units outstanding (by expiry date) for the MomCSP, MMI LTRAS, and MMI LTIP are as follows:

2014	MomCSP '000	MMI LTRAS '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000
Financial year 2014/2015	**30**	**244**	**4 327**	**6 054**	**–**
Financial year 2015/2016	**–**	**–**	**4 810**	**6 887**	**583**
Financial year 2016/2017	**–**	**–**	**5 836**	**6 727**	**583**
Financial year 2017/2018	**–**	**–**	**–**	**–**	**583**
Total outstanding shares	**30**	**244**	**14 973**	**19 668**	**1 749**

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(e) Cash-settled arrangements *continued*

Valuation assumptions relating to outstanding units at 30 June:

2014	MomCSP 5th tranche	MMI LTRAS 2nd tranche	MMI LTIP Retention units 1st tranche	2nd tranche	3rd tranche	4th tranche
Award date	03-Nov-08	01-Jan-11	01-Oct-11	01-Nov-12	02-Apr-13	15-Oct-13
Vesting date	03-Nov-14	01-Dec-14	01-Oct-14	01-Nov-15	02-Apr-16	15-Oct-16
Outstanding units (thousands)	30	244	4 327	4 743	67	4 721
Valuation assumptions include:						
Outstanding tranche period in years	0.40	0.60	0.30	1.30	1.90	2.40
Take-up rate on units outstanding	94%	94%	94%	88%	88%	82%
Current vesting rate	100%	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R26.18	R26.18	R26.18	R26.25	R26.25	R26.25

2013	MomCSP 4th tranche	MomCSP 5th tranche	MMI LTRAS 1st tranche	MMI LTRAS 2nd tranche
Award date	03-Nov-08	03-Nov-08	01-Jan-11	01-Jan-11
Vesting date	03-Nov-13	03-Nov-14	01-Dec-13	01-Dec-14
Outstanding units (thousands)	1 396	29	7 789	244
Valuation assumptions include:				
Outstanding tranche period in years	0.40	1.40	0.60	1.60
Take-up rate on units outstanding	100%	100%	94%	88%
Current vesting rate	94%	88%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R22.18	R21.10	R22.21	R21.10

Vesting rate assumptions regarding performance units in the table above:

As stated on page 170, 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 57 of this integrated report.

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 GDP growth. The vesting rate assumption regarding the ROEV Index 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 R40 million in the liability under cash-settled arrangements at 30 June 2014.

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

Tranches vested during the current or prior year

MomCSP: The first, second and third tranches of the MomCSP were settled in September, October and November 2012 respectively at R18.00 per share totalling R161 million.

MomCSP: The fourth tranche of the MomCSP was settled in November 2013 at R25.15 per share totalling R34 million.

MMI LTRAS: The first tranche of the MMI LTRAS was settled in December 2013 at R25.30 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 R391 million (2013: R264 million) for the group and is disclosed under employee benefit expenses in note 32.

MMI LTIP							MSPS		
Retention units		Performance units							
5th tranche	6th tranche	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	1st tranche	2nd tranche	3rd tranche
05-Mar-14	02-May-14	01-Oct-11	01-Nov-12	02-Apr-13	15-Oct-13	02-May-14	01-Nov-13	01-Nov-13	01-Nov-13
05-Mar-17	02-May-17	01-Oct-14	01-Nov-15	02-Apr-16	15-Oct-16	02-May-17	01-Nov-16	01-Nov-17	01-Nov-18
970	145	6 054	6 797	90	5 972	755	583	583	583
2.80	2.10	0.40	1.40	1.90	2.40	2.10	2.40	3.40	4.40
82%	82%	94%	88%	88%	82%	82%	100%	100%	100%
100%	100%	100%	100%	100%	100%	100%	95%	95%	95%
R26.25	R26.25	R26.25	R26.25	R26.25	R26.25	R26.25	N/A	N/A	N/A

MMI LTIP					
Retention units			Performance units		
1st tranche	2nd tranche	3rd tranche	1st tranche	2nd tranche	3rd tranche
01-Oct-11	01-Nov-12	02-Apr-13	01-Oct-11	01-Nov-12	02-Apr-13
01-Oct-14	01-Nov-15	02-Apr-16	01-Oct-14	01-Nov-15	02-Apr-16
4 783	4 952	64	6 434	6 808	86
1.30	2.30	2.90	1.30	2.30	2.90
94%	88%	82%	94%	88%	82%
100%	100%	100%	100%	100%	100%
R20.82	R22.17	R22.17	R20.82	R22.17	R22.17

		2014 Rm	Restated 2013 Rm
22	**OTHER PAYABLES**		
	Payables arising from insurance contracts and investment contracts with DPF	**3 925**	3 174
	Claims in process of settlement		
	Insurance contracts	**1 576**	1 703
	Investment contracts with DPF	**154**	240
	Premiums paid in advance	**1 529**	1 192
	Due to reinsurers	**666**	39
	Payables arising from investment contracts	**1 025**	961
	Deferred revenue liability	**360**	257
	Financial instruments	**5 127**	6 770
	Scrip lending collateral payable	**–**	2 532
	Unsettled trades	**992**	1 293
	Commission creditors	**550**	480
	Other payables	**3 585**	2 465
		10 437	11 162
	Current	**10 163**	9 601
	Non-current	**274**	1 561
		10 437	11 162
	Reconciliation of deferred revenue liability		
	Balance at beginning of year	**257**	238
	Deferred income relating to new business	**101**	84
	Business combinations (refer to note 38)	**83**	–
	Amount recognised in income statement (refer to note 27)	**(81)**	(65)
	Balance at end of year	**360**	257

		2014 Rm	2013 Rm
23	**PROVISIONS**		
	Balance at beginning of year	**180**	153
	Additional provisions	**245**	304
	Business combinations (refer to note 38)	**–**	26
	Utilisation of provisions	**(230)**	(268)
	Unutilised amounts reversed	**(38)**	(35)
	Balance at end of year	**157**	180
	Current	**153**	105
	Non-current	**4**	75
		157	180
	The provisions relate to individually small items with no single significant amount.		
24	**NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE**		
	Non-current assets held for sale		
	Balance at beginning of year	**680**	865
	Transferred to investment properties during the year (refer to note 4)	**–**	(185)
	Disposals	**(663)**	–
	Balance at end of year	**17**	680

The non-current assets held for sale balance relates to investment properties which are pending transfer. Properties to the value of R185 million were transferred to investment properties in the prior year as they will no longer be sold.

		2014 Rm	Restated 2013 Rm
25	**INCOME TAX**		
25.1	**Current income tax (assets)/liabilities**		
	Current income tax assets	**(330)**	(108)
	Current income tax liabilities	**255**	267
		(75)	159
	Balance at beginning	**159**	242
	Charged to income statement	**2 433**	1 904
	Additional provisions	**2 311**	1 697
	Additional prior year provisions/(unused amounts reversed)	**2**	(94)
	Tax attributable to cell captive owners	**120**	301
	Paid during year	**(2 939)**	(1 994)
	Business combinations (refer to note 38)	**268**	5
	Other	**4**	2
	Balance at end	**(75)**	159
25.2	**Income tax (credits)/expenses**		
	Current taxation	**2 433**	1 904
	Shareholder tax		
	South African normal tax – current year	**1 278**	1 179
	South African normal tax – prior year	**(38)**	(85)
	Foreign countries – normal tax	**69**	51
	Foreign withholding tax	**27**	24
	Contract holder tax		
	Tax on contract holder funds – current year	**821**	302
	Tax on contract holder funds – prior year	**156**	132
	Tax attributable to cell captive owners	**120**	301
	Deferred tax	**25**	(100)
	Shareholder tax		
	South African normal tax – current year	**(316)**	(193)
	South African normal tax – prior year	**8**	(3)
	Foreign countries – normal tax	**3**	(2)
	Foreign withholding tax	**–**	1
	Contract holder tax		
	Tax on contract holder funds – current year	**437**	163
	Tax on contract holder funds – prior year	**(172)**	(67)
	Tax attributable to cell captive owners	**65**	1
		2 458	1 804

Tax rate reconciliation	2014 %	Restated 2013 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Prior year adjustments	**(0.6)**	(1.9)
Taxation on contract holder funds	**21.2**	18.7
Foreign tax differential	**(2.0)**	(0.8)
Capital gains tax	**(0.8)**	(1.2)
Non-taxable income	**(5.8)**	(4.1)
Non-deductible expenses	**1.3**	1.1
Tax losses for which no deferred tax asset was recognised	**0.6**	0.5
Cell captive tax – to be recovered from cell owners	**2.3**	–
Other	**(1.5)**	0.2
Effective rate	**42.7**	40.5

		2014 Rm	Restated 2013 Rm
26	**NET INSURANCE PREMIUMS**		
	Premiums received	**28 118**	26 435
	Long-term insurance contracts	**21 956**	22 304
	Health premiums	**755**	577
	Investment contracts with DPF	**2 577**	3 204
	Short-term insurance	**2 830**	350
	Premiums received ceded to reinsurers	**(4 980)**	(3 131)
		23 138	23 304

Included in the above is R5 046 million (2013: R1 679 million) premiums and R3 286 million (2013: R1 530 million) reinsurance relating to cell captives.

		2014 Rm	Restated 2013 Rm
27	**FEE INCOME**		
	Contract administration	**1 772**	1 901
	Investment contract administration	**1 691**	1 836
	Release of deferred front-end fees	**81**	65
	Trust and fiduciary services	**2 014**	1 837
	Asset management	**615**	600
	Asset administration	**677**	738
	Retirement fund administration	**722**	499
	Health administration	**1 978**	1 866
	Other income	**803**	601
	Administration fees received	**41**	135
	Multiply fee income	**258**	236
	Cell captive fee income	**95**	17
	Other	**409**	213
		6 567	6 205

Contract revenue recognised for the year amounts to R56 million (2013: R105 million) and is included in asset administration fees above.

		2014 Rm	Restated 2013 Rm
28	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividend income – listed	**2 219**	1 755
	Dividend income – unlisted	**899**	587
	Interest income	**10 079**	9 903
	Designated at fair value through income	**8 805**	8 641
	Available-for-sale	**39**	46
	Held-to-maturity	**5**	3
	Loans and receivables	**228**	221
	Cash and cash equivalents	**1 002**	991
	Non-financial assets	**–**	1
	Rental income	**844**	796
	Investment properties	**828**	784
	Owner-occupied properties	**16**	12
	Other income	**2**	5
		14 043	13 046

		2014 Rm	Restated 2013 Rm
29	**NET REALISED AND FAIR VALUE GAINS**		
	Financial assets	**43 402**	30 417
	Designated at fair value through income	**43 526**	31 053
	Derivative financial instruments – losses	**(165)**	(699)
	Available-for-sale – realised gains	**–**	2
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	**41**	61
	Financial liabilities		
	Designated at fair value through income	**(20)**	22
	Investment property	**541**	318
	Valuation gains	**572**	325
	Change in accelerated rental income	**(31)**	(7)
	Gain on changes from associate to subsidiary	**–**	67
	Other investments	**(17)**	35
		43 906	30 859
30	**NET INSURANCE BENEFITS AND CLAIMS**		
	Long-term insurance contracts	**17 943**	16 711
	Death and disability claims	**7 094**	6 293
	Maturity claims	**5 148**	4 418
	Annuities	**2 553**	2 955
	Surrenders	**2 769**	2 625
	Terminations and withdrawal benefits	**379**	420
	Health and capitation benefits incurred	**538**	440
	Short-term insurance benefits incurred	**1 360**	177
	Short-term insurance change in provision for outstanding claims	**289**	–
	Investment contracts with DPF	**4 197**	4 544
	Death and disability claims	**50**	207
	Maturity claims	**866**	1 072
	Annuities	**58**	49
	Surrenders	**401**	508
	Terminations and withdrawal benefits	**2 822**	2 708
		24 327	21 872
	Amounts recovered from reinsurers	**(2 006)**	(1 545)
		22 321	20 327

Included in the above is R1 897 million (2013: R397 million) claims and R815 million (2013: R360 million) reinsurance relating to cell captives.

		2014 Rm	2013 Rm
31	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES**		
	Depreciation (refer to notes 2 and 3)	**229**	214
	Owner-occupied properties	**44**	40
	Equipment	**185**	174
	Amortisation (refer to note 1)	**889**	899
	Value of in-force business acquired	**321**	327
	Customer relationships	**393**	424
	Brands	**57**	56
	Broker network	**34**	27
	Computer software	**84**	65
	Impairment of intangible assets (refer to note 1)	**24**	–
	Computer software	**24**	–
	Impairment of property, plant and equipment (refer to note 3)	**1**	1
	Equipment	**1**	1
	Impairment of financial assets	**16**	30
	Loans and receivables	**16**	30
		1 159	1 144

		2014 Rm	2013 Rm
32	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	3 919	3 579
	Contributions to medical aid funds	192	182
	Defined benefit retirement fund	3	2
	Defined contribution retirement fund	239	258
	Post-retirement medical benefits	2	(3)
	Retirement fund assets (refer to note 21)	66	(16)
	Share-based payment expenses – Cash-settled arrangements (refer to note 21.2)	391	264
	Current service costs – International subsidiaries' share schemes	8	2
	Training costs	136	141
	Other	176	85
		5 132	4 494

For detail of directors' and prescribed officers' emoluments, refer to pages 62 to 65 of the corporate governance report.

		2014 Rm	Restated 2013 Rm
33	**SALES REMUNERATION**		
	Commission incurred for the acquisition of insurance contracts	2 890	2 269
	Commission incurred for the acquisition of investment contracts with DPF	713	521
	Amortisation of deferred acquisition costs	267	224
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	29	47
		3 899	3 061
34	**OTHER EXPENSES**		
	Administration fees paid – binder and outsourcing fees	47	29
	Asset management fees	1 423	855
	Auditors' remuneration	73	69
	Audit fees	66	62
	Fees for other services	7	7
	Bad debts written off	10	16
	Bank charges	64	58
	Consulting fees	423	310
	Direct property operating expenses on investment property	273	466
	Information technology expenses	433	438
	Marketing costs	351	351
	Multiply benefit payments	207	183
	Office costs	732	712
	Operating lease charges	97	106
	Other indirect taxes	220	155
	Policy services	46	51
	Travel expenses	171	179
	Other expenses	465	498
		5 035	4 476
35	**FINANCE COSTS**		
	Interest expense on financial liabilities		
	Redeemable preference shares	46	46
	Subordinated redeemable debt	46	46
	Unsecured subordinated call notes	102	54
	Cost of carry positions	156	255
	Other	132	266
		482	667

		Basic earnings		Diluted earnings	
		2014	2013	2014	2013
36	**GROUP EARNINGS PER ORDINARY SHARE**				
	Attributable to owners of the parent				
	Earnings (cents per share)[1, 2]	**205.5**	166.0	**202.4**	164.2
	Headline earnings (cents per share)	**207.1**	162.0	**204.0**	160.2
	Core headline earnings (cents per share)	**230.3**	205.1	**225.7**	202.1

Reconciliation of headline earnings attributable to owners of the parent	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Earnings – equity holders of group	**3 197**	2 587	**3 197**	2 587
Finance costs – preference shares (refer to note 35)			**45**	46
Dilutory effect of subsidiaries[3]			**(22)**	(19)
Diluted earnings			**3 220**	2 614
Realised gains on available-for-sale financial assets	**–**	(2)	**–**	(2)
Intangible assets and other impairments	**25**	3	**25**	3
Profit on change from associate to subsidiary	**–**	(67)	**–**	(67)
Loss on sale of business	**–**	3	**–**	3
Headline earnings[4]	**3 222**	2 524	**3 245**	2 551
Net realised and fair value gains on excess	**(544)**	(340)	**(544)**	(340)
Basis and other changes, and investment variances	**160**	367	**160**	367
Amortisation of intangible assets relating to business combinations	**575**	587	**575**	587
Investment income on treasury shares held on behalf of contract holders	**–**	–	**14**	18
Non-recurring items[5]	**171**	58	**171**	58
Core headline earnings[3, 6]	**3 584**	3 196	**3 621**	3 241
Weighted average number of ordinary shares in issue (million)	**1 556**	1 558	**1 556**	1 558
Adjustments for				
Assumed conversion of 100 million preference shares (weighted)			**35**	35
Diluted weighted average – earnings and headline earnings (million)			**1 591**	1 593
Treasury shares held on behalf of contract holders			**14**	12
Impact of weighting			**(1)**	(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 and Metropolitan Kenya 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.

36 GROUP EARNINGS PER ORDINARY SHARE *continued*

[5] **Non-recurring items**

Non-recurring items include one-off costs relating to the restructuring of the group. It includes an 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 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.

[7] **Diluted weighted average number of shares**

For diluted core headline earnings, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings, these shares are deemed to be treasury shares.

		2014 Rm	Restated 2013 Rm
37	**CASH FLOW FROM OPERATING ACTIVITIES**		
37.1	**Cash utilised in operations**		
	Profit before tax	**5 758**	4 455
	Adjusted for		
	Dividends received	**(3 118)**	(2 341)
	Interest received	**(10 079)**	(9 902)
	Finance costs	**482**	667
	Share of profits of associates	**(2)**	(12)
	Net realised and fair value gains	**(50 057)**	(30 836)
	Depreciation and amortisation expenses	**1 118**	1 113
	Impairment charges	**74**	83
	Deferred acquisition costs movement	**267**	224
	Share-based payments and other employee benefit expenses	**418**	263
	Staff and management bonus liabilities	**160**	199
	Leave pay liability	**28**	28
	Provisions	**297**	304
	Reinsurance assets	**(40)**	(11)
	Employee benefit assets and obligations	**(385)**	(90)
	Deferred revenue liability movements	**(81)**	(65)
	Accelerated rental income	**(31)**	(7)
	Other non-cash items	**23**	6
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Insurance and investment liabilities	**43 081**	34 973
	Intangible assets related to insurance and investment contracts	**(330)**	(317)
	Investment properties	**(936)**	(452)
	Properties under development	**(154)**	169
	Assets designated at fair value through income	**3 875**	721
	Investments in associates designated at fair value through income	**6 233**	(475)
	Loans and receivables	**1 099**	(975)
	Insurance and other receivables	**(273)**	(198)
	Change in employee benefit obligations	**(405)**	(359)
	Other operating liabilities	**(1 599)**	1 184
	Cash utilised in operations	**(4 577)**	(1 651)

		2014 Rm	Restated 2013 Rm
37	**CASH FLOW FROM OPERATING ACTIVITIES** *continued*		
37.2	**Income tax paid**		
	Due at beginning	**(3 952)**	(4 069)
	Charged to income statement	**(2 458)**	(1 804)
	Charged directly to other comprehensive income	**(12)**	3
	Other	**(61)**	3
	Business combinations	**(400)**	(79)
	Exchange differences	**1**	–
	Due at end	**3 943**	3 952
		(2 939)	(1 994)
37.3	**Interest paid**		
	Redeemable preference shares	**(46)**	(49)
	Subordinated redeemable debt	**(46)**	(46)
	Unsecured subordinated call notes	**(102)**	(54)
	Cost of carry positions	**(156)**	(255)
	Other	**(129)**	(266)
		(479)	(670)

38 BUSINESS COMBINATIONS

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

	2014	Total Rm	Guardrisk Rm	Providence Rm	Other Rm
38	**BUSINESS COMBINATIONS** *continued*				
	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 contracts	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	(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 above transactions contributed net income of R2 255 million and earnings of R83 million to the group results for the current year.

38 **BUSINESS COMBINATIONS** *continued*

Business combinations for the year ended 30 June 2013

Momentum Short-term Insurance

As at 30 June 2012, MMIGL and OUTsurance Holdings Ltd (OUTsurance) each owned 50% of the ordinary share capital of Momentum Short-term Insurance Company Ltd (MSTI). As OUTsurance controlled MSTI, MMIGL accounted for the investment as an associate.

On 13 July 2012, MMIGL acquired the remaining 50% shareholding for R125 million in cash, which was based on the embedded value of MSTI. No goodwill was recognised on the transaction.

Eris Property Group (Eris)

On 29 October 2012, MMI Holdings Ltd acquired 55% in Eris for R329 million in cash. The group's property portfolio is currently managed by Eris and Momentum Properties. The transaction resulted in R191 million goodwill being recognised attributable to certain anticipated operating synergies. The goodwill is not deductible for tax purposes.

Eris management and Kagiso Tiso Holdings (Pty) Ltd (KTH), who were existing shareholders in Eris, also acquired further shares from MMI Holdings Ltd, resulting in a controlling interest for MMI of 54%.

2013	Total Rm	MSTI Rm	Eris Rm
Purchase price allocation:			
Fair value of net assets:			
Intangible assets			
Customer relationships	276	158	118
Tangible assets	332	–	332
Property and equipment	2	–	2
Investment properties	63	–	63
Properties under development	267	–	267
Financial instrument assets	353	201	152
Designated at fair value through income	260	201	59
Loans and receivables	93	–	93
Other assets	17	3	14
Investment in associates	5	–	5
Deferred income tax assets	9	2	7
Current income tax assets	3	1	2
Cash and cash equivalents	43	7	36
Financial instrument liabilities	(85)	–	(85)
Other liabilities	(418)	(104)	(314)
Deferred income tax liabilities	(83)	(43)	(40)
Employee benefit obligations	(26)	–	(26)
Other payables	(275)	(61)	(214)
Provisions	(26)	–	(26)
Current income tax liabilities	(8)	–	(8)
Net identifiable assets acquired	518	265	253
Profit on change from associate to subsidiary	(67)	(67)	–
Derecognise investment in associate	(73)	(73)	–
Non-controlling interests	(115)	–	(115)
Goodwill	191	–	191
Purchase consideration in cash	454	125	329
Cash and cash equivalents in subsidiary	43	7	36
Less: purchase consideration in cash	(454)	(125)	(329)
Net cash and cash equivalents paid through business combinations	(411)	(118)	(293)

The net income and earnings of MSTI and Eris included in the group results for the prior year were R603 million and R33 million respectively.

Common control transactions

After consultation with the FSB, the group applied to the High Court of South Africa for the approval of the amalgamation of the two main long-term insurance licences. As a preparatory step for this legal amalgamation of the life insurance licences, Momentum Group Ltd changed its name to MMI Group Ltd (MMIGL). The court approval for the amalgamation was granted on 20 May 2013, and the assets and liabilities of Metropolitan Life Ltd were sold to MMIGL on this date.

The transaction was recorded in accordance with the group's accounting policy for common control transactions. It had no impact on the group results or net asset value.

		2014 Rm	2013 Rm
39	**CAPITAL AND LEASE COMMITMENTS**		
	Capital commitments		
	Authorised but not contracted	**388**	96
	Authorised and contracted	**364**	683
		752	779
	The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, property, 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	**47**	77
	Between 1 and 5 years	**32**	95
		79	172
	The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
	Less than 1 year	**373**	524
	Between 1 and 5 years	**1 194**	1 111
	More than 5 years	**413**	448
		1 980	2 083

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 263.

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 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 51 to 53 and pages 61 to 65.

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

	2014 Rm	2013 Rm
Salaries and other short-term employee benefits	**38**	33
Post-employment benefits	**1**	2
Share-based payments	**35**	23
Directors' fees	**16**	19
	90	77

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, annuity and investment transactions between MMI Holdings Ltd, any subsidiary and key management personnel and their families are as follows:

	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)**

	2013	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2013)	N/A	248
Aggregate life and disability cover (at 30 June 2013)	131	N/A
Deposits/premiums (for 12 months to June 2013)	–	56
Withdrawals/claims (for 12 months to June 2013)	–	(10)

In aggregate, the group earned fees and charges totalling R2 million (2013: R2 million) on the insurance, annuities and investment products set out above.

41.3 Broad-based black economic empowerment partner

The group's broad-based black economic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), has an interest of 7.1% (2013: 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 20.1.
- 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). 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 dividend declarations:

Of the final dividend declared in September 2013 (2013: September 2012), R298 million (2013: R271 million) is attributable to RMI Holdings Ltd. The interim dividend was declared in March 2014 (2013: March 2013). Of the interim dividend declared, R223 million (2013: R200 million) is attributable to RMI Holdings Ltd. Of the special dividends declared in September 2012, R255 million is attributable to RMI Holdings Ltd. Another R529 million will be provided for during the 2015 financial year (as part of the dividend declared in September 2014).

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 99 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: Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. 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. Market risk for shareholders is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises price risk, interest rate risk, currency risk and property risk. In certain instances these risks are passed on to policyholders, eg when financial instruments subject to market risk back contract holder liabilities. Property risk has been included in this section, even though it is not a financial risk, as in certain cases properties 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 and any debtors to which shareholders and policyholders are exposed. It could also arise from the decrease in value of an asset subsequent 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 and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment contract liabilities, the policyholder carries the credit risk and the group carries the risk on shareholder assets and assets backing guaranteed and non-profit annuities' policyholder benefits.

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.

	2014 Rm	Restated 2013 Rm
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	100 790	83 831
Local listed	78 261	68 396
Foreign listed	21 672	14 614
Unlisted	857	821
Debt securities	83 851	84 090
Stock and loans to government and other public bodies		
Local listed	30 514	31 913
Foreign listed	1 706	1 552
Unlisted	3 232	3 464
Other debt instruments		
Local listed	23 684	24 580
Foreign listed	491	473
Unlisted	24 224	22 108
Funds on deposit and other money market instruments	29 878	21 544
Unit-linked investments *(refer to Annexure B for further detail)*	120 477	100 036
Collective investment schemes		
Local unlisted or listed quoted	70 723	58 738
Foreign unlisted or listed quoted	25 942	23 896
Foreign unlisted unquoted	1 225	1 421
Other unit-linked investments		
Local unlisted or listed quoted	8 941	822
Local unlisted unquoted	12 334	13 328
Foreign	1 312	1 831
Investments in associates designated at fair value through income *(refer to Annexure B for further detail)*	11 900	13 031
Derivative financial instruments	2 362	3 173
Held for trading	2 347	3 140
Held for hedging purposes	15	33
Available-for-sale	129	953
Equity securities		
Local listed	3	22
Foreign listed	87	–
Unlisted	4	24
Debt securities – foreign listed	31	893
Funds on deposit and other money market instruments	–	9
Local unlisted quoted collective investment schemes *(refer to Annexure B for further detail)*	4	5
Financial assets carried at amortised cost		
Held-to-maturity	100	69
Funds on deposit and other money market instruments	85	69
Debt securities	15	–

		2014 Rm	Restated 2013 Rm
43	**FINANCIAL RISK MANAGEMENT** *continued*		
43.1	**Classes of assets and liabilities** *continued*		
	Loans and receivables	5 586	5 697
	Accounts receivable	2 444	2 365
	Unsettled trades	772	1 190
	Loans	2 370	2 142
	Other receivables		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 669	2 731
	Cash and cash equivalents	28 875	22 275
	Other assets carried at fair value		
	Owner-occupied properties	1 714	1 488
	Investment properties	7 675	6 433
	Non-current assets held for sale	17	680
	Other assets not carried at fair value	17 283	14 337
	Total assets	414 306	360 368

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

	2014 Rm	Restated 2013 Rm
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	201 651	159 776
Designated at fair value through income	30 801	34 171
Collective investment scheme liabilities	22 313	25 471
Subordinated call notes	2 573	1 051
Carry positions	4 851	7 649
Preference shares	1 001	–
Other	63	–
Derivative financial instruments	1 853	2 547
Held for trading	1 853	2 547
Carried at amortised cost		
Financial liabilities	1 463	1 246
Cumulative redeemable preference shares	313	313
Subordinated redeemable debt	511	511
Finance lease liabilities	2	3
Other	637	419
Other payables	8 548	9 713
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	2 396	1 982
Payables arising from investment contracts	1 025	961
Scrip lending collateral payable	–	2 532
Unsettled trades	992	1 293
Commission creditors	550	480
Other payables at amortised cost	3 585	2 465
Insurance contract liabilities	111 543	96 973
Investment contracts with DPF	25 405	24 937
Other non-financial liabilities	7 828	7 141
Total liabilities	389 092	336 504

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.
- 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
- 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 (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 reflect 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 depends on the inherent risk profile of the company.

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk. The 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 issuing preference shares, as well as the consolidation of life insurance and other licences in the group. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuaries of MMIGL.

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.3 Statutory capital requirement

All the life insurance subsidiaries in the group must hold allowable capital of not less than the minimum prescribed statutory CAR. MMI's only restriction 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 is 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 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
- risk that long-term insurance and financial assumptions are not realised.

The CAR of the group is included in retained earnings and must be maintained as statutory capital.

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, but the full impact of SAM on required capital levels is still uncertain at this stage. It is therefore appropriate to adopt a prudent approach towards capital management until clarity on the eventual impact of SAM is obtained. 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 the light of local and international developments.

The FSB has indicated that it aims to implement SAM with effect from 1 January 2016. Insurance companies are, however, expected to perform a "light" parallel run in 2014 and a "comprehensive" parallel run in 2015. MMI's internal SAM project is on track to meet these requirements.

The group is in the process of preparing for the adoption of the SAM regulatory capital regime which will be applicable from 1 January 2016.

The group participated in the FSB's third Quantitative Impact Study (QIS3), the results of which were submitted to the FSB during the first half of 2014. The results of QIS3 showed that the capitalisation level of the group is in line with that of the industry. The findings of the QIS exercises provide the group with a more informed view and improved understanding of the potential impact of SAM on its future capital position and management. Technical details of the SAM specifications are still being deliberated, and the outcome of these deliberations will be incorporated into the capital modelling process.

Guardrisk, the newly acquired subsidiary, realised early in the SAM process that the 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 embarked on a 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 was given approval by the FSB in 2011 to participate in the FSB's Internal Model Application Process. It is envisaged that the final application document will be submitted to the FSB during the last quarter of 2014. Approval of the model will allow the business to meet capital requirements that are efficient for the cell captive model.

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

44 **CAPITAL MANAGEMENT** *continued*

44.3 **Overview of capital management developments** *continued*

44.3.4 ***Regulatory capital developments*** *continued*

2014 is a landmark year for SAM as the project will officially move from the development phase to the implementation phase with the introduction of the light parallel run in the second half of 2014. During 2015, implementation efforts will be increased in the move to the comprehensive parallel run. There will also be a mock Own Risk and Solvency Assessment (ORSA) exercise where the group will be required to submit some ORSA information to the FSB.

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

44.3.5 Issuance of subordinated debt

On 17 March 2014, MMIGL issued an amount of R1.5 billion of subordinated, unsecured callable notes in the market.

Two bonds were issued:

- A R750 million floating rate bond with a legal maturity of 10 years (callable after five years). The bond was issued at a spread of 1.46% over the 3-month JIBAR interest rate; and
- A R750 million fixed rate bond with a legal maturity of 12 years (callable after seven years). The bond was issued at a spread of 1.70% over the R208 government bond yield.

The table below shows a summary of the MMIGL subordinated unsecured callable notes in issue at 30 June 2014:

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**
MET01	**500**	**9.25%**	**8.0**	**Dec-06**	**Fixed**
MMIG01	**750**	**3-month JIBAR + 1.46%**	**5.0**	**Mar-14**	**Floating**
MMIG02	**750**	**10.07%**	**7.0**	**Mar-14**	**Fixed**

44.4 Sources of capital utilised

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

MMI Group Ltd Regulatory capital	2014 Rm	2014 %	2013 Rm	2013 %
Tier 1	**12 942**	**81**	13 227	89
– core tier 1 (ie equity capital)	**12 442**	**78**	12 727	86
– non-redeemable preference shares	**500**	**3**	500	3
Tier 2: subordinated qualifying debt	**3 075**	**19**	1 552	11
Qualifying statutory capital	**16 017**	**100**	14 779	100

44.5 Regulatory capital position

At 30 June 2014, MMIGL's CAR was covered 2.9 times (2013: 2.6 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMI Group Ltd Regulatory capital position	2014 Rm	2013 Rm
Statutory excess over liabilities	**16 017**	14 779
CAR	**5 545**	5 601
CAR cover (times)	**2.9**	2.6

MMIGL's regulatory capital position improved over the 12 months ended 30 June 2014 as a result of an increase in the statutory surplus and a reduction in the CAR.

The increase in the surplus was mainly due to the issuance of the subordinated debt of R1.5 billion in March 2014.

The reduction in CAR is mainly attributed to a combination of the following offsetting factors:

- a decrease in investment risk due to a favourable economic environment and an improvement in the funding levels of the discretionary participating portfolios; and
- an increase in insurance risks, due to an increase in the size of the risk book.

44 CAPITAL MANAGEMENT *continued*

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 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 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 not yet been finalised 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. An amount of around R785 million will, however, be returned to ordinary shareholders in the form of a special dividend during the October 2014 dividend cycle. Based on future capital projections, we are comfortable that the level of the capital buffer, after the payment of the ordinary final and special dividends, should be sufficient to meet future strategic requirements and the potential impact of SAM.

44.7 Group credit risk

On 15 January 2014, Fitch upgraded the credit ratings of MMIGL and MMI Holdings Ltd. The National Insurer Financial Strength (IFS) rating of MMIGL was upgraded to “AA+(zaf)” from “AA(zaf)” and MMI Holdings Ltd’s National Long-term rating was upgraded to “AA-(zaf)” from “A+(zaf)”. The Outlook for both companies are Stable.

The upgrades reflect MMI’s progress in realising its merger plan and improved profitability in the context of a well-established domestic franchise and a solid capital position.

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.

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	33	8 687	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	33	163	6 874
Subtotal	104 519	25 347	192 786	322 652
Liabilities in cell captive business	7 024	59	8 864	15 942
Total contract holder liabilities	111 543	25 406	201 650	338 599

45 INSURANCE AND INVESTMENT BUSINESS *continued*

Restated 2013	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	38 569	24 754	7	63 330
Individual contracts with DPF	33 254	7 336	7	40 597
Smoothed bonus business	24 445	7 336	7	31 788
Conventional with-profit business	8 809	–	–	8 809
Group contracts with DPF	5 315	17 418	–	22 733
Smoothed bonus business	–	13 740	–	13 740
Smoothed bonus business – fully vesting	–	3 637	–	3 637
With-profit annuity business	5 315	41	–	5 356
Market-related business	20 756	156	151 202	172 114
Individual market-related business	20 756	156	100 241	121 153
Group market-related business	–	–	50 961	50 961
Other business	37 150	(27)	7 030	44 153
Non-profit annuity business	29 355	–	2 284	31 639
Guaranteed endowments	2 057	–	4 528	6 585
Structured products	–	–	52	52
Other non-profit business	5 738	(27)	166	5 877
Subtotal	96 475	24 883	158 239	279 597
Liabilities in cell captive business	498	54	1 537	2 089
Total contract holder liabilities	96 973	24 937	159 776	281 686

45.1 Classes of insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the 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 MMIGL 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. The full value of the underlying assets is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through underdistribution 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 operational risk to the extent that a negative BSA cannot reasonably be expected to be recovered through underdistribution 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 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 fixed and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Guaranteed endowments (insurance and financial instrument business)

Insurance

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.
- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, 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 insurance and investment business *continued*

Structured products (financial instruments)

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

Other non-profit business

- These are primarily insurance contracts of varying duration as well as inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- 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.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the group is 10.7% (2013: 9.0%).
- The investment contract liability is primarily in respect of inflation-linked benefits, which are discounted using a real yield curve. The average real yield that produces the same result is 1.8% (2013: 1.5%) for the group.

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.
- 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 18.
- 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 Insurance risk

Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. 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.

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 committee has been appointed by the MMI board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

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

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 Insurance risk *continued*

45.2.1 Mortality, morbidity and medical risks

The risk that actual experience in respect of the rates of mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products. Underwriting processes are in place to manage exposure to death, disability and medical 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 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 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.
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
  - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.

    Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.

    Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is on fully underwritten and limited underwriting products with sums assured above R50 000.

45 **INSURANCE AND INVESTMENT BUSINESS** *continued*

45.2 **Insurance risk** *continued*

45.2.1 Mortality, morbidity and medical risks *continued*

- 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 R650 million (2013: R580 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 by sum insured at risk.

Sum insured per benefit (Rands)	2014 Number of benefits	2014 Amount (gross) Rm	2014 Amount (net) Rm	Restated 2013 Number of benefits	Restated 2013 Amount (gross) Rm	Restated 2013 Amount (net) Rm
0 – 20 000	**7 257 939**	**50 174**	**26 447**	7 212 085	38 125	25 061
20 001 – 50 000	**1 385 706**	**47 596**	**31 080**	1 485 652	47 272	29 490
50 001 – 100 000	**429 757**	**34 150**	**13 261**	396 658	27 523	11 430
100 001 – 200 000	**415 184**	**85 112**	**45 297**	458 426	81 839	45 858
200 001 – 500 000	**166 546**	**57 463**	**32 599**	231 898	67 552	33 848
500 001 – 1 000 000	**238 144**	**132 284**	**94 976**	235 731	132 556	96 093
> 1 000 000	**655 613**	**744 799**	**427 702**	543 263	697 134	399 447
Subtotal	**10 548 889**	**1 151 578**	**671 362**	10 563 713	1 092 001	641 227
Cell captive business	**2 583 150**	**189 008**	**54 861**	497 344	24 872	8 087
Total	**13 132 039**	**1 340 586**	**726 223**	11 061 057	1 116 873	649 314

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.
  - 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:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an "actively at work" clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This is waived if the group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause applies, 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.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Insurance risk *continued*

45.2.1 Mortality, morbidity and medical risks *continued*

- 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 is a catastrophe treaty 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	2014	Restated 2013
0 – 1 000	**7 488**	6 820
1 001 – 5 000	**451**	365
> 5 000	**214**	146
Subtotal	**8 153**	7 331
Cell captive business	**22**	3
Total	**8 175**	7 334

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
  - increased longevity due to medical advances and improvement in social conditions
  - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
  - 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)	2014 Number of annuitants	2014 Total amount per annum Rm	Restated 2013 Number of annuitants	Restated 2013 Total amount per annum Rm
0 – 10 000	**83 240**	**340**	85 490	344
10 001 – 50 000	**47 960**	**1 071**	48 021	1 062
50 001 – 100 000	**9 515**	**664**	8 583	595
100 001 – 200 000	**4 198**	**576**	3 535	484
> 200 000	**2 124**	**787**	1 594	574
Subtotal	**147 037**		147 223	
Cell captive business	**2 420**	**28**	246	–
Total	**149 457**		147 469	

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. Ongoing claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Insurance risk *continued*

45.2.2 Contract persistency risk

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

How risks are managed:

- The recovery of expenses is in line with the regulatory limitations introduced in 2006. Therefore, in addition to setting realistic assumptions with regard to termination rates (rates of withdrawals and lapses) 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 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.

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.

45.2.4 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.

46 GUARDRISK

Introduction

MMI Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Due to the acquisition being close to year-end, Guardrisk has not yet aligned all its risk management processes to that of the MMI group.

Nature of business

Guardrisk is principally engaged in both short-term and long-term insurance and related insurance management activities. It transacts 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.

Guardrisk offers the following structured insurance and risk financing solutions:

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.

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. 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 the application of this 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/rent-a-captive: 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.

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. 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, 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 not 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 attempts to ensure that the underwritten risks 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 (ie solvency risk is measured on a monthly basis and, if required, additional capital is requested from the cell owners). The group's exposure to risk on this business is limited to the credit risk of the cell owner, if a cell owner does not recapitalise in terms of the cell owner shareholders agreement, with respect to third-party cell arrangements.

In addition, reinsurance agreements are concluded to minimise the solvency risk (refer to Reinsurance section on page 202).

46 **GUARDRISK** *continued*

Risk management *continued*

Contingency policies and rent-a-captive business

This business is usually written for a one-year period and policies cover multiple risks. The risks underwritten are primarily in respect of primary layers of an insurance programme or for risks, that are difficult to insure, of companies. Policyholders 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 that is in place. 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 participates with several of the cell shareholders in the underwriting risks of their business. Guardrisk carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each insurance programme.

Terms and conditions of non-life insurance contracts

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

Insurance is provided to corporate clients 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 indemnity for loss of or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake, theft and malicious damage.

Accident – Provides indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party or accidental death or injury to a third party caused by the insured.

Accident and Health – Provides compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or possibly the employees of a business. Such death or disability is restricted to certain accidents and does not provide the wider cover available from the life insurance industry.

Motor – Provides indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third-party property or death or injury to a third party are also covered under this class of business.

Engineering – Provides indemnity for losses sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract includes contract works, construction, plant and machinery breakdown, loss of profits, deterioration of stock, works damage and electronic equipment.

Marine – Provides indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo. Hull covers loss or damage to commercial vessels as a result of accidents and also includes legal liability as a result of the accident.

Credit – Provides indemnity against the risk of delayed or non-payment of an insured debtor.

Guarantee – Provides indemnity for losses relating to the failure of an insured to discharge an obligation to a third party which is covered by the policy issued.

Liability – Provides indemnity if an event contemplated in the contract of insurance results in a loss occurring. This type of contract includes public liability, product recall and malicious product tampering.

Miscellaneous – Provides indemnity for losses not otherwise mentioned above and allowed in terms of the Short-term Insurance Act, 53 of 1998.

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 *continued*

Short-term life insurance contracts – These contracts consist of group life assurance and funeral contracts, which provide death benefits to policyholders and are normally annually renewable. These policies protect policyholders from the consequences of death or disability, which results in a large economic burden on the policyholder or his/her dependants. Fixed benefits are paid 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 as agreed 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 reinsurance arrangements include excess-of-loss, stop-loss and catastrophe coverage.

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.

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 enterprise 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 market and liquidity risk management policy, which is a policy of the enterprise risk management framework.

The executive Balance sheet management committee (executive BSM) is responsible for the group's liquidity and funding risk management, with the BSM board sub-committee providing oversight for funding and liquidity risks 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 87% (restated 2013: 84%) of the liabilities of the group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed policyholder benefits

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

Non-profit annuities' policyholder benefits

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

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

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.

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares, the subordinated redeemable debt, and the subordinated call notes.

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 listed equity instruments. The investment mandate and guidelines that govern the investment of shareholder funds restricts exposure to illiquid investments. The shareholder funds are thus not exposed to material liquidity risk.

48 **LIQUIDITY RISK** *continued*

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	2014 %	2014 Rm	Restated 2013 %	Restated 2013 Rm
High[1]	71%	293 110	66%	236 864
Medium[2]	24%	97 677	28%	101 678
Low/illiquid[3]	5%	22 706	6%	20 598
Other assets not included above				
– non-current assets held for sale		17		680
– employee benefit assets		405		327
– accelerated rental income		128		97
– deferred income tax		263		124
Total assets		414 306		360 368

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:

2014 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]	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)[2]	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 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[3]	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	–
Other payables at amortised cost[4]	8 548	8 548	–	8 545	3	–	–
Other liabilities[5]	7 828						
Total liabilities	389 092	364 787	146 337	33 354	43 607	32 919	108 570

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 below.

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

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

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected 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 18.
- 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 subordinated call notes are callable by MMIGL from 15 September 2015, and will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under this bond.
- 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.
- It is expected that the subordinated redeemable debt will be redeemed on 15 December 2014, being the earliest date on which the issuer can redeem the debt. The ultimate maturity date is 15 December 2019.
- The loan from FirstRand Bank Ltd of R375 million in the prior year was repaid in the current year. A new loan of R463 million was granted in the current year. Interest on the loan is levied at the prime rate minus 1%. The loan is secured by the underlying property.

48 **LIQUIDITY RISK** *continued*

Maturity profile of liabilities *continued*

Restated 2013 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)	96 475	96 475	9 358	11 530	23 071	19 682	32 834
Linked (market-related) business							
Individual	20 376	20 376	3 151	1 681	5 214	4 536	5 794
Smoothed bonus business							
Individual	24 581	24 581	1 234	2 907	6 219	6 619	7 602
Employee benefits	1	1	–	1	–	–	–
Conventional with-profit business	8 749	8 749	2 715	360	998	833	3 843
Non-profit business							
Individual	5 389	5 389	469	2 433	1 729	274	484
Employee benefits	2 555	2 555	1 125	1 345	33	15	37
Annuity business	34 824	34 824	664	2 803	8 878	7 405	15 074
Investment contracts with DPF (discounted cash flows)	24 883	24 883	17 742	1 517	2 082	1 525	2 017
Linked (market-related) business							
Individual	154	154	(2)	16	54	45	41
Smoothed bonus business							
Individual	7 342	7 342	1 042	805	2 035	1 480	1 980
Employee benefits	17 423	17 423	16 696	699	11	11	6
Non-profit business							
Individual	(36)	(36)	6	(3)	(18)	(11)	(10)
Investment contracts (undiscounted cash flows)	158 239	157 698	82 786	8 829	23 555	8 564	33 964
Linked (market-related) business							
Individual	100 213	98 625	32 603	7 709	17 805	7 573	32 935
Employee benefits	50 032	50 032	50 032	–	–	–	–
Non-profit business							
Individual	4 619	5 287	133	763	4 323	61	7
Annuity business	3 375	3 754	18	357	1 427	930	1 022
Subtotal policyholder liabilities under insurance and investment contracts	279 597	279 056	109 886	21 876	48 708	29 771	68 815
Cell captive business	2 089						
Total policyholder liabilities under insurance and investment contracts	281 686	279 056	109 886	21 876	48 708	29 771	68 815
Financial liabilities designated at fair value through income	34 171	34 333	25 471	7 649	1 213	–	–
Collective investment scheme liabilities	25 471	25 471	25 471	–	–	–	–
Subordinated call notes	1 051	1 213	–	–	1 213	–	–
Carry positions	7 649	7 649	–	7 649	–	–	–
Derivative financial instruments	2 547						
Amortised cost	1 246	1 501	–	474	1 017	10	–
Cumulative redeemable convertible preference shares	313	500	–	46	454	–	–
Subordinated redeemable debt	511	578	–	46	532	–	–
Finance lease liabilities	3	3	–	1	2	–	–
Other	419	420	–	381	29	10	–
Other payables at amortised cost	9 713	9 713	–	9 692	8	13	–
Other liabilities	7 141						
Total liabilities	336 504	324 603	135 357	39 691	50 946	29 794	68 815

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.

2014 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
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				

Restated 2013 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(134)	(133)	(137)	4	–
Interest rate derivatives	996	2 610	248	681	1 681
Bond derivatives	(23)	30	30	–	–
Credit derivatives	2	2	–	–	2
Currency derivatives	(248)	(248)	(29)	(13)	(206)
	593	2 261	112	672	1 477
Derivatives held for hedging					
Fair value hedges	33	33	33	–	–
Total net undiscounted cash flow projections	626	2 294	145	672	1 477
Derivative financial instruments					
Assets	3 173				
Liabilities	(2 547)				
	626				

49 MARKET RISK

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				
	2014 Rm	**Restated 2013 Rm**	**Market price risk**	**Interest rate risk**	**Currency risk**
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**100 790**	83 831	✓✓		✓
Debt securities	**83 851**	84 090	✓	✓✓	✓
Funds on deposit and other money market instruments	**29 878**	21 544	✓	✓✓	✓
Unit-linked investments	**120 477**	100 036	✓✓	✓	✓
Investments in associates designated at fair value through income	**11 900**	13 031	✓✓	✓	✓
Derivative financial instruments					
Held for trading	**2 347**	3 140	✓✓	✓✓	✓
Held for hedging purposes	**15**	33	✓✓	✓✓	✓
Available-for-sale					
Equity securities	**94**	46	✓✓		
Funds on deposit and other money market instruments	**–**	9	✓	✓✓	
Debt securities	**31**	893	✓	✓✓	
Local unlisted quoted collective investment schemes	**4**	5	✓✓		
Carried at amortised cost					
Held-to-maturity – funds on deposit and other money market instruments	**100**	69		✓✓	✓✓
Loans and receivables					
Accounts receivable	**2 444**	2 365		✓	✓
Unsettled trades	**772**	1 190			✓
Loans	**2 370**	2 142		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 669**	2 731			✓
Cash and cash equivalents	**28 875**	22 275		✓✓	✓
Other assets	**26 689**	22 938	N/A	N/A	N/A
Total assets	**414 306**	360 368			

	Carrying value 2014 Rm	Restated 2013 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	**201 651**	159 776	✓✓	✓✓	✓
Designated at fair value through income					
Collective investment scheme liabilities	**22 313**	25 471	✓✓	✓	✓
Subordinated call notes	**2 573**	1 051	✓	✓✓	
Carry positions	**4 851**	7 649	✓	✓✓	
Preference shares	**1 001**	–	✓	✓✓	
Other	**63**	–		✓	
Derivative financial instruments					
Held for trading	**1 853**	2 547	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable preference shares	**313**	313		✓✓	
Subordinated redeemable debt	**511**	511		✓✓	
Finance lease liabilities	**2**	3		✓✓	
Other	**637**	419		✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**2 396**	1 982			✓
Payables arising from investment contracts	**1 025**	961			✓
Scrip lending collateral payable	**–**	2 532			✓
Unsettled trades	**992**	1 293			✓
Commission creditors	**550**	480		✓	✓
Other payables at amortised cost	**3 585**	2 465		✓	✓
Insurance contract liabilities	**111 543**	96 973	*	*	*
Investment contracts with DPF liabilities	**25 405**	24 937	✓✓	✓✓	✓✓
Other non-financial liabilities	**7 828**	7 141	N/A	N/A	N/A
Total liabilities	**389 092**	336 504			

✓✓ 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.

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

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

49 MARKET RISK *continued*

Furthermore, MMI is also exposed to the reputational risk if actual investment performance is not in line with policyholder expectations.

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 BSM committee providing oversight over market risks assumed on behalf of shareholders as per the MMI Shareholder ALM Policy.

As per the Client Investment Management Policy, the divisional Policyholder Investment Committees monitor the performance of all investment portfolios, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks. The committees also consider 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

Various product lines subject to this risk are offered, with some products closed to new business.

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, according to the asset manager's best investment view. Divisional Policyholder Investment Committees regularly monitor the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for each product.

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

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- A portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, the group has the right to remove previously declared non-guaranteed bonuses. 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 values. This is 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.
- 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 to policyholders in the normal course of events.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

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

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

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

49 **MARKET RISK** *continued*

Market risk management per product *continued*

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

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

Market-related/unit-linked business

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

Policyholders carry the investment risk; however, the 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.

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 annual bonus rate will not be less than a contractual minimum (around 4.5% p.a.). There is also a portion of universal smoothed bonus fund values that is deemed vested and thereby constitutes an additional form of investment guarantee. Similarly, on reversionary bonus business, an investment guarantee in the form of sum assured and declared reversionary bonuses are 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 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 for specific terms.

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

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 and swaps with approximately the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The portfolio aims to minimise both of these risks. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R6 million (2013: R184 million) for MMIGL.

The calculation for MMIGL is based on the risk-free yield curve. The average rate that produces the same result is 9.0% (2013: 8.6%).

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 liability is set equal to the discounted value of expected future cash flows (including margins) using a long-term interest rate. Any changes in long-term interest rates would therefore result in a change in the value of liabilities. The group reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed-interest investments.

Individual life risk 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). Any changes in long-term interest rates would therefore result in a change in the value of liabilities.

49.1 Market risk management per risk factor

Equity price risk

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

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

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

The 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 the group's asset manager and specialist alternative investment boutique to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the 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 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 will fluctuate as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the 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, and debentures where the price is driven by the underlying gold price. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

Instrument class 2014	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	**83 851**	**29 136**	**51 335**	**3 380**	**6.9**
Funds on deposit and other money market instruments	**29 878**	**25 949**	**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	**83 175**	**57 562**	**11 762**	
Restated 2013					
Designated at fair value through income					
Debt securities	84 090	29 710	53 024	1 356	6.1
Funds on deposit and other money market instruments	21 544	18 907	2 623	14	5.7
Derivative financial assets	3 173	–	3 173	–	N/A
Derivative financial liabilities	(2 547)	–	(2 547)	–	N/A
Available-for-sale					
Debt securities	893	799	94	–	6.0
Funds on deposit and other money market instruments	9	6	3	–	–
Held-to-maturity					
Debt securities	69	69	–	–	6.0
Cash and cash equivalents	22 275	17 358	3 574	1 343	4.5
Loans and receivables	5 697	1 703	3	3 991	10.3
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 731	11	–	2 720	–
	137 934	68 563	59 947	9 424	

There is a contractual repricing of the coupon interest rate prior to the maturity date on the held-to-maturity assets with a carrying value of R76 million (2013: R69 million).

Liability exposure to interest rates is reflected in notes 19 and 20.

49 MARKET RISK *continued*

49.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial instruments and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the 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:

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

49 **MARKET RISK** *continued*

49.3 **Currency risk** *continued*

2013	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*15.2196*	*9.9801*	*13.0324*			
Investment securities							
Designated at fair value through income							
Equity securities	402	1 171	9 214	1 039	763	794	13 383
Debt securities	779	46	1 463	532	4	–	2 824
Funds on deposit and other money market instruments	353	2	47	8	–	–	410
Unit-linked investments	154	1 039	18 693	1 374	70	60	21 390
Investments in associates	–	–	5 370	–	–	–	5 370
Derivative financial instruments	–	–	11	–	–	1	12
Available-for-sale							
Debt securities	–	–	2	–	–	–	2
Loans and receivables	104	21	108	11	18	9	271
Cash and cash equivalents	486	333	3 417	202	–	3	4 441
Other financial assets	292	–	–	–	–	–	292
	2 570	2 612	38 325	3 166	855	867	48 395

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
2014	**1.2062**	**3.4072**	**0.1212**	**0.0652**
2013	1.1602	4.9249	0.1165	0.0617

49.4 **Property price risk**

Property price risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

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

	2014 Rm	Restated 2013 Rm
Investment properties	**7 675**	6 433
Owner-occupied properties	**1 714**	1 488
Properties under development	**252**	98
Collective investment schemes > 55% property exposure (refer to Annexure B)	**2 862**	3 468
	12 503	11 487
Percentage of total assets	**3.0%**	3.2%

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 2014. The carrying amount of unlet and vacant investment property as at 30 June 2014 was R301 million (2013: R116 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 18 for sensitivities around insurance risk. The table below provides the sensitivity to a change in equity prices by 10% and a change to interest rates by 100 basis points.

	Equity prices		Interest rates	
2014	**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	**386**	**(387)**	**15**	**(20)**
Increase/(decrease) in equity	**398**	**(398)**	**(100)**	**127**
Restated 2013				
Increase/(decrease) in earnings per income statement	330	(337)	16	(20)
Increase/(decrease) in equity	273	(278)	18	(20)

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, but no changes are made to the prospective assumptions used in the measurement of contract holder liabilities.
- In line with MMI's current practice and accounting policy, the profits 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. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the 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 Moody's, Fitch or S&P
- current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which 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. Collateral, where applicable, is maintained at a risk-adjusted level of at least 100% of scrip lent. In general, the lender retains the risk and reward of securities lent. The lender participates fully in the market movements of the investment.

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.

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 debits 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.

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.

50 CREDIT RISK *continued*

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:

	2014 Rm	Restated 2013 Rm
Designated at fair value through income		
Debt securities	**83 851**	84 090
Stock and loans to government and other public bodies	**35 452**	36 599
Other debt instruments	**48 399**	47 491
Funds on deposit and other money market instruments	**29 878**	21 544
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	**19 699**	26 768
Collective investment schemes	**17 679**	21 685
Other unit-linked investments	**2 020**	5 083
Derivative financial instruments	**2 362**	3 173
Held for trading	**2 347**	3 140
Held for hedging purposes	**15**	33
Available-for-sale	**35**	907
Debt securities	**31**	893
Funds on deposit and other money market instruments	**–**	9
Unit-linked investments	**4**	5
Held-to-maturity	**100**	69
Funds on deposit and other money market instruments	**85**	69
Debt securities	**15**	–
Loans and receivables	**5 586**	5 697
Accounts receivable	**2 444**	2 365
Unsettled trades	**772**	1 190
Loans	**2 370**	2 142
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 669**	2 731
Cash and cash equivalents	**28 875**	22 275
Total assets bearing credit risk	**174 055**	167 254

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 next 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, with no significant fair value movement 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 subordinated call notes traded at an average spread of 105 basis points, 50 basis points, 146 basis points and 170 basis points respectively from 1 July 2013 to 30 June 2014 (119 basis points and 101 basis points respectively from 1 July 2012 to 30 June 2013). Additional subordinated call notes were issued on 17 March 2014. Fitch upgraded MMIGL's National Insurer Financial Strength rating to "AA+(zaf)" from "AA(zaf)" on 15 January 2014.

50 CREDIT RISK *continued*

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

	Carrying value	
	2014 Rm	**Restated 2013 Rm**
Assets		
Debt securities	**61 379**	60 322
Funds on deposit and other money market instruments	**16 677**	14 900
	78 056	75 222
Liabilities		
Policyholder liabilities under investment contracts	**201 651**	159 776
Collective investment scheme liabilities	**22 313**	25 471
Subordinated call notes	**2 573**	1 051
Carry positions	**4 851**	7 649
Preference shares	**1 001**	–
Other	**63**	–
	232 452	193 947

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 on pages 219 to 220.

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 R198 million (2013: R209 million).

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R1 121 million (2013: R931 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 for when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R1 159 million at 30 June 2014 (2013: R1 908 million).

Available-for-sale

The group had put options against the unlisted preference share investments classified under available-for-sale assets as debt securities in the prior year. The group could sell these preference shares, at an amount linked to the issue price, to a third party if a default event occurred. The fair value of these preference shares were R374 million at 30 June 2013. The preference shares have been sold in the current year.

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 19). 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 069 million (2013: R3 555 million) consisting of local listed equity securities. There is no collateral on the scrip lent as at the end of the current year. In the prior year, on-balance sheet collateral held amounted to R2 531 million (consisting of cash and cash equivalents of R1 645 million and debt securities of R886 million) and off-balance sheet collateral held amounted to R1 230 million (cash and cash equivalents).

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 2014	**Derivative financial assets Rm**
Gross amounts of recognised financial assets	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	2 362
Related amounts not set off in the statement of financial position	
Financial instruments	(824)
Net amount	1 538

Financial liabilities 2014	**Derivative financial liabilities Rm**
Gross amounts of recognised financial liabilities	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	1 853
Related amounts not set off in the statement of financial position	
Financial instruments	(824)
Net amount	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 421 million (2013: R1 326 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 221 are analysed in the table below, using national scale credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available.

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**	**28 494**	**9 235**	**1 124**	**158**	**108**	**2 072**	**48 399**
Cash and cash equivalents and funds on deposit	**4 940**	**39 350**	**7 355**	**1 118**	**–**	**182**	**5 808**	**58 753**
Derivative financial instruments	**389**	**1 892**	**74**	**–**	**–**	**–**	**7**	**2 362**
Available-for-sale	**–**	**–**	**–**	**–**	**–**	**–**	**35**	**35**
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**	**36 938**	**174 055**

Restated 2013	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	23 701	9 498	3 001	–	–	294	105	36 599
Debt securities – other debt instruments	5 160	31 872	7 201	557	71	223	2 407	47 491
Cash and cash equivalents and funds on deposit	3 631	27 227	7 888	314	–	132	4 627	43 819
Derivative financial instruments	496	2 653	11	–	–	–	13	3 173
Available-for-sale	380	140	8	–	–	–	379	907
Held-to-maturity	–	69	–	–	–	–	–	69
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	4 388	4 388
Other receivables	–	–	–	–	–	–	2 308	2 308
Unit-linked investments[1]	–	–	–	–	–	–	26 768	26 768
Past due or impaired assets	–	–	–	–	–	–	1 732	1 732
	33 368	71 459	18 109	871	71	649	42 727	167 254

[1] Refer to page 258 for detail on unit-linked investments and page 219 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:

	2014		Restated 2013	
Reinsurer	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	20%	AA	26%	AA
General Cologne Re	19%	AA	24%	AA
Hannover Re	8%	A	7%	A
RGA Re	5%	AA	6%	AA
Munich Re	29%	AA	17%	AA
Other	19%	–	20%	–
	100%		100%	

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

2014	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	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
2013					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	96	162	63	13	334
Accounts receivable	286	271	36	2	595
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	660	142	71	18	891
	1 042	575	170	33	1 820

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 and 3. Refer to pages 230 and 234 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 *(level 2)*	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
– Unlisted	External valuations/price-earnings ratios *(level 3)*	Management applies judgement if an adjustment of the relevant price-earnings ratio is required
Stock and loans to other public bodies		
– Listed, local	Yield of benchmark (listed government) bond *(level 2)*	Market input
– Listed, foreign	DCF, benchmarked against similar instrument with the same issuer *(level 2)*	Market input
– Unlisted	DCF, real interest rates or six-month JIBAR plus fixed spread *(level 2)*	Market input and appropriate spread
	DCF, risk-free yield curve plus fixed spread *(level 3)*	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)/published price quotations on JSE equity (preference shares) and interest rate market *(level 2)*	Market input, uplifted with inflation
– Listed, foreign	External valuations that are based on published market input *(level 2)*	Market input
– Unlisted	DCF (market-related nominal and real discount rates, zero coupon bond curve plus issuer spread, non-observable nominal rates, bank and credit default swap curves, government bond yield curve plus a spread)/external valuations/NAV of a hedge fund (debenture) *(level 2 and 3)*	Market input and appropriate spread
Funds on deposit and other money market instruments		
– Listed	DCF (market-related yields)/issue price/external valuations *(level 2)*	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates/DCF (market-related yields) *(level 2)*	Market input (based on quotes received from market participants and valuation agents)
Unit-linked investments	External valuations *(level 2 and 3)*	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) *(level 2)*	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) *(level 2)*	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology) *(level 2)*	Market input, contract input
Preference shares (Liability)	Preference shares issued on 26 June 2014, therefore valued at transaction price *(level 2)*	Transaction price approximates fair value

There were no significant changes in the valuation methods applied since 30 June 2013.

51 VALUATION TECHNIQUES *continued*

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

Description	Fair value at 30 June 2014 Rm	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets					
Securities designated at fair value through income					
Equity securities					
Unlisted	**728**	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	**24**	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	**70**	Discounted cash flow	Nominal interest rate	8.51% to 9.99%	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments					
Local listed	**74**	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets, the greater the fair value
Unlisted	**2 799**	Discounted cash flow	Nominal interest rate	5.80% to 10.04% 6.75% to 14.01%	The higher the nominal interest rate, the lower the fair value of the assets
		Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Subtotal	**3 695**				

51 **VALUATION TECHNIQUES** *continued*

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

Description	Fair value at 30 June 2014 Rm	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Subtotal	3 695				
Unit-linked investments					
Collective investment schemes					
Foreign unlisted unquoted	675	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments					
Local unlisted unquoted	2 159	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
	6 529				
Other	13				
	6 542				
Financial liabilities					
Investment contracts designated at fair value through income	153	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	40	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
Other borrowings	58	Discounted cash flow	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	251				

51 VALUATION TECHNIQUES *continued*

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

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	21 420	2 799	24 224
Funds on deposit and other money market instruments	–	29 878	–	29 878
Unit-linked investments				
Collective investment schemes				
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 designated at fair value through income	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 Listed government stock of R626 million was transferred from level 2 to level 1 assets during the year in line with classification policy. The timing of the transfers are deemed to have occurred at the beginning of the year. There were no significant transfers between level 1 and level 2 assets in the previous year.

51 VALUATION TECHNIQUES *continued*

Restated 2013	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	193 047	101 207	8 278	302 532
Equity securities	82 331	680	820	83 831
Debt securities	21 934	57 310	4 846	84 090
Funds on deposit and other money market instruments	207	21 337	–	21 544
Unit-linked investments	75 704	21 761	2 571	100 036
Investments in associates at fair value				
Unit-linked investments	12 871	119	41	13 031
Derivative financial instruments	6	3 167	–	3 173
Held for trading	6	3 134	–	3 140
Held for hedging purposes	–	33	–	33
Available-for-sale	22	533	398	953
Equity securities	15	7	24	46
Debt securities	2	517	374	893
Funds on deposit and other money market instruments	–	9	–	9
Unit-linked investments	5	–	–	5
	193 075	104 907	8 676	306 658

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

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				
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									
Total realised gains/(losses) in net realised and fair value gains in the income statement	2	(5)	(51)	–	–	–	(3)	–	(57)
Total unrealised gains in net realised and fair value gains in the income statement	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	–	(1 177)	(17)	–	–	–	–	–	(1 194)
Closing balance	730	2 971	2 841	–	4	–	1 714	7 675	15 935

2013	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Held for trading Rm	Equity securities Rm	Debt securities Rm	Total Rm
	Financial instruments							
	Designated at fair value through income				Derivative financial instruments	Available-for-sale		
Opening balance	821	5 420	2 059	3	–	4	374	8 681
Transfer from/(to) other asset classes	4	18	(5)	–	–	–	–	17
Total gains in net realised and fair value gains in the income statement	106	689	263	1	1	20	–	1 080
Purchases	489	305	1 005	25	2	–	–	1 826
Sales/settlements – at fair value	(600)	(1 609)	(751)	(5)	(3)	–	–	(2 968)
Transfers into level 3	–	23	–	17	–	–	–	40
Closing balance	820	4 846	2 571	41	–	24	374	8 676

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 R1 556 million (2013: R882 million) for the group.

The reason for the transfer out of level 3 in the current 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.

51 VALUATION TECHNIQUES *continued*

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

	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	Total Rm
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**	**N/A**	
Effect of increase in assumption	**73**	**(130)**	**284**	**N/A**	**N/A**	**N/A**	
Effect of decrease in assumption	**(73)**	**123**	**(284)**	**N/A**	**N/A**	**N/A**	
Restated 2013							
Carrying value	820	4 846	2 571	41	24	374	8 676
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	Not sensitive	Not sensitive	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	82	(143)	257	N/A	N/A	37	
Effect of decrease in assumption	(82)	166	(257)	N/A	N/A	(37)	

[1] 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:

2014	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
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**
Restated 2013				
Investment contracts designated at fair value through income	860	158 253	663	159 776
Financial liabilities designated at fair value through income	25 312	8 859	–	34 171
Collective investment scheme liabilities	25 312	159	–	25 471
Subordinated call notes	–	1 051	–	1 051
Carry positions	–	7 649	–	7 649
Derivative financial instruments	146	2 401	–	2 547
Held for trading	146	2 401	–	2 547
	26 318	169 513	663	196 494

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:

2014	Investment contracts designated at fair value through income Rm	Financial liabilities designated at fair value through income — Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
Opening balance	**663**	**–**	**–**	**663**
Business combinations (refer to note 38)	**–**	**–**	**4**	**4**
Total losses in net realised and fair value gains in the income statement				
Total realised losses in net realised and fair value gains in the income statement	**5**	**–**	**–**	**5**
Total unrealised losses/(gains) in net realised and fair value gains in the income statement	**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**
2013				
Opening balance	662	–	–	662
Total gains or losses in income statement	100	–	–	100
Settlements	(54)	–	–	(54)
Contract holder movements				
Benefits paid	(34)	–	–	(34)
Investment return	8	–	–	8
Transfers out of level 3	(19)	–	–	(19)
Closing balance	663	–	–	663

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by 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:

	2014 Carrying value Rm	2014 Fair value Rm	Restated 2013 Carrying value Rm	Restated 2013 Fair value Rm
Assets				
Held-to-maturity financial instruments	**100**	**100**	69	69
Loans and receivables	**5 586**	**5 636**	5 697	5 744
Loans	**2 370**	**2 420**	2 142	2 189
Accounts receivable	**2 444**	**2 444**	2 365	2 365
Unsettled trades	**772**	**772**	1 190	1 190
Cash and cash equivalents	**28 875**	**28 875**	680	680
	34 561	**34 611**	6 446	6 493

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 R346 million (2013: R304 million) is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 12% (2013: 11.5%).
- For policy loans, the fair value of R1 451 million (2013: R1 357 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 8.5% (2013: 7.9% and 9.5%).
- 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:

	2014 Carrying value Rm	2014 Fair value Rm	Restated 2013 Carrying value Rm	Restated 2013 Fair value Rm
Liabilities				
Investment contracts with DPF	**25 405**	**25 405**	24 937	24 937
Amortised cost	**1 463**	**2 053**	1 246	1 708
Cumulative redeemable preference shares	**313**	**903**	313	762
Subordinated redeemable debt	**511**	**511**	511	524
Finance lease liabilities	**2**	**2**	3	3
Other	**637**	**637**	419	419
Other payables	**8 548**	**8 516**	9 713	9 651
Payables arising from investment contracts	**1 025**	**1 025**	961	961
Other payables	**7 523**	**7 491**	8 752	8 690
	35 416	**35 974**	35 896	36 296

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 2014, the expected cash flows were discounted at a current market rate of 11% (2013: 10%). 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). *(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.

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STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	2014 Rm	2013 Rm	Notes
ASSETS			
Equipment	**0.1**	0.2	2
Interest in subsidiary companies	**19 969.5**	19 923.7	3
Financial instruments	**1 886.8**	1 552.2	
Designated at fair value through income	**1 329.0**	982.8	4
Loans and receivables	**557.8**	569.4	5
Current income tax asset	**0.6**	2.1	12.1
Cash and cash equivalents	**260.1**	20.0	6
Total assets	**22 117.1**	21 498.2	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	**17 543.1**	17 543.1	7
Other components of equity	**54.8**	54.8	
Retained earnings	**3 995.7**	2 894.6	
Total equity	**21 593.6**	20 492.5	
LIABILITIES			
Financial instruments	**312.7**	312.7	
Amortised cost	**312.7**	312.7	8
Employee benefit obligations	**28.1**	27.3	10
Other payables	**182.7**	665.7	11
Total liabilities	**523.5**	1 005.7	
Total equity and liabilities	**22 117.1**	21 498.2	

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	2013 Rm	Notes
Investment income	**3 388.0**	3 471.2	13
Net realised and fair value gains	**299.3**	187.0	14
Net income	**3 687.3**	3 658.2	
Depreciation and impairment expenses	**162.1**	109.8	15
Employee benefit expenses	**73.0**	52.7	16
Other expenses	**211.1**	183.4	17
Expenses	**446.2**	345.9	
Results of operations	**3 241.1**	3 312.3	
Finance costs	**(45.4)**	(51.2)	18
Profit before tax	**3 195.7**	3 261.1	
Income tax	**(6.8)**	35.9	12.2
Earnings for year attributable to owners of the company	**3 188.9**	3 297.0	

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	2013 Rm
Earnings for year	**3 188.9**	3 297.0
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the company	**3 188.9**	3 297.0

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2012	17 549.6	2 501.7	54.8	20 106.1	
Total comprehensive income	–	3 297.0	–	3 297.0	
Share buy-back	(6.5)	–	–	(6.5)	7
Dividend paid	–	(2 904.1)	–	(2 904.1)	
Balance at 30 June 2013	**17 543.1**	**2 894.6**	**54.8**	**20 492.5**	
Total comprehensive income	**–**	**3 188.9**	**–**	**3 188.9**	
Dividend paid	**–**	**(2 087.8)**	**–**	**(2 087.8)**	
Balance at 30 June 2014	**17 543.1**	**3 995.7**	**54.8**	**21 593.6**	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rm	2013 Rm	Notes
Cash flow from operating activities			
Cash used in operations	**(282.7)**	(224.0)	19.1
Dividends received	**3 314.5**	3 423.1	13
Interest received	**73.5**	48.1	13
Income tax paid	**(5.3)**	(5.9)	19.2
Interest paid	**(45.4)**	(54.9)	19.3
Net cash inflow from operating activities	**3 054.6**	3 186.4	
Cash flow from investing activities			
(Purchase)/Disposal of assets designated at fair value through income	**(44.6)**	51.8	
Investments in subsidiary companies	**(23.8)**	(1 123.1)	
Loans (to)/from related parties	**(658.3)**	537.4	
Purchase of equipment	**–**	(0.1)	
Net cash outflow from investing activities	**(726.7)**	(534.0)	
Cash flow from financing activities			
Shares repurchased and cancelled	**–**	(6.5)	
Dividends paid	**(2 087.8)**	(2 904.1)	
Net cash outflow from financing activities	**(2 087.8)**	(2 910.6)	
Net cash flow	**240.1**	(258.2)	
Cash and cash equivalents at beginning	**20.0**	278.2	
Cash and cash equivalents at end	**260.1**	20.0	6

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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.

		2014 Rm	2013 Rm
2	**EQUIPMENT**		
	Cost	**1.1**	1.1
	Accumulated depreciation	**(1.0)**	(0.9)
	Carrying amount	**0.1**	0.2
	Carrying amount at beginning	**0.2**	0.2
	Additions	**–**	0.1
	Depreciation charge	**(0.1)**	(0.1)
	Carrying amount at end	**0.1**	0.2
	Equipment comprises furniture and fittings and computer equipment.		
3	**INTEREST IN SUBSIDIARY COMPANIES**		
	Cost less impairment	**19 549.1**	19 532.8
	Loans to subsidiary companies (Annexure A)	**420.4**	390.9
		19 969.5	19 923.7
	Opening balance	**19 923.7**	18 900.0
	Cost of interest in subsidiaries acquired	**23.8**	1 405.1
	Cost of subsidiary sold	**–**	(36.7)
	Less: impairment charge	**(7.5)**	(94.7)
	Movements in loans to subsidiary companies	**29.5**	(250.0)
	Closing balance	**19 969.5**	19 923.7

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.

Subsidiaries acquired

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R11.5 million during the current year.

The MMI Group Limited shares in MMI Strategic Investments (Pty) Ltd were transferred to MMI Holdings Ltd at a cost of R12.3 million.

Impairment

The company impaired R7.5 million (2013: R94.7 million) of the investment in its subsidiary Momentum Trust Ltd (2013: MMI Finance Company (Pty) Ltd (previously Metropolitan International (Pty) Ltd)) in the current year.

The company also impaired R136.2 million of the capitalised loan to MMI Finance Company (Pty) Ltd (previously Metropolitan International (Pty) Ltd).

		2014 Rm	2013 Rm
4	**DESIGNATED AT FAIR VALUE THROUGH INCOME**		
	Equity securities	**1 329.0**	982.8

- Assets designated at fair value through income for equity securities are all open-ended. This category includes 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 is available for inspection at the company's registered office.

		2014 Rm	2013 Rm
5	**LOANS AND RECEIVABLES**		
	Accounts receivable	**0.3**	0.9
	Loans to related parties	**556.4**	567.4
	Loans to subsidiary companies (Annexure A)	**207.7**	239.9
	Less: provision for impairment on loans to subsidiary companies	**(163.4)**	(145.1)
	Loans to associates	**10.7**	10.7
	Less: provision for impairment on loans to associates	**(3.0)**	(3.0)
	Preference shares	**57.4**	51.2
	Empowerment partners	**447.0**	413.7
	Strategic unsecured loans	**1.1**	1.1
		557.8	569.4
	Current	**182.7**	432.8
	Non-current	**375.1**	136.6
		557.8	569.4
	Reconciliation of provision for impairment		
	Opening balance	**148.1**	133.1
	Additional provisions for current year (refer to note 15)	**18.3**	15.0
	Closing balance	**166.4**	148.1

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 R9.9 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 R47.6 million in the prior 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 R6.2 million (2013: R3.6 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 or BVI at anytime of the year from 26 February 2016.
  - an unsecured loan of R91.2 million (2013: R91.3 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 R322.8 million (2013: R322.4 million) at 30 June 2014, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 - Share-based payments - and is recognised as a receivable carried at amortised cost. Interest was initially charged at 80% of the prime interest rate of South Africa plus 9% per annum, and the preference shares had a repayment date of 31 July 2012. When the repayment date of the A3 MMI preference shares was extended to 29 June 2017, the A3 KTH SPV preference shares were also extended for a period of five years until 29 June 2017. The rate of the funding provided by MMI was changed to 88% of prime.

Impairment

The loans to subsidiary companies were impaired by R18.3 million (2013: R15 million) in the current year.

		2014 Rm	2013 Rm
6	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	**260.1**	19.9
	Funds on deposit and other money market instruments – maturity < 90 days	**–**	0.1
		260.1	20.0

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

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

Number of shares in issue (million)	2014	2013
Opening balance	**1 569.8**	1 570.1
Share buy-back	**–**	(0.3)
Closing balance	**1 569.8**	1 569.8

Share capital and share premium	Rm	Rm
Opening balance	**17 543.1**	17 549.6
Share buy-back	**–**	(6.5)
Closing balance	**17 543.1**	17 543.1

Details of the preference shares are disclosed in note 20.1 of the group financial statements.

		2014 Rm	2013 Rm
8	**FINANCIAL LIABILITIES AT AMORTISED COST**		
	Cumulative redeemable convertible preference shares	**312.7**	312.7
	Current	**11.3**	11.3
	Non-current	**301.4**	301.4
		312.7	312.7

Details of the cumulative redeemable convertible preference shares are disclosed in note 20.1 of the group financial statements.

		2014 Rm	2013 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	**145.2**	90.2
	Tax losses and credits	**145.2**	90.2
	Deferred tax liability	**(145.2)**	(90.2)
	Revaluations	**(145.2)**	(90.2)
		–	–
	Movement in deferred tax		
	Balance at beginning	**–**	(43.0)
	Charge to income statement	**–**	43.0
	Revaluations	**(55.0)**	(30.7)
	Tax losses and credits	**55.0**	73.7
	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 R21.2 million (2013: R75.7 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

		2014 Rm	2013 Rm
10	**EMPLOYEE BENEFIT OBLIGATIONS**		
	Share scheme obligations	**27.0**	25.6
	Leave pay	**1.1**	1.7
		28.1	27.3
	Current	**17.1**	18.8
	Non-current	**11.0**	8.5
		28.1	27.3
	Cash-settled arrangement – long-term retention scheme		
	Balance at beginning	**25.6**	18.0
	Additional provisions	**30.8**	18.8
	Benefits paid	**(29.4)**	(11.2)
	Balance at end	**27.0**	25.6
	Leave pay		
	Balance at beginning	**1.7**	1.7
	Additional provisions	**–**	0.1
	Benefits paid	**(0.3)**	(0.1)
	Unutilised amounts reversed	**(0.3)**	–
	Balance at end	**1.1**	1.7

10 EMPLOYEE BENEFIT OBLIGATIONS *continued*

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

The MMI LTRAS is a phantom scheme in that a participant is 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 vest 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 is 1 December 2013 or 1 December 2014.

The cash sum is only paid out if the employee remains 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) have 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 vesting date. When the retention units and performance units have vested on the vesting date, it represents the right to receive a cash sum equal to the fair market price of an MMI share (average of 20 trading days before the vesting date).

	2014 MMI LTIP '000	2013 MMI LTIP '000	2014 MMI LTRAS '000	2013 MMI LTRAS '000
Number of units outstanding				
At beginning of year	**1 070**	567	**916**	916
Units granted during year	**567**	503	**–**	–
Units transferred from other companies	**206**	–	**244**	–
Units exercised/released during year	**–**	–	**(1 160)**	–
At end of year	**1 843**	1 070	**–**	916
Performance units	**1 440**	860		
Retention units	**403**	210		
	1 843	1 070		
Inputs used in valuation of the MMI share schemes				
Current vesting rate	**100%**	100%	**100%**	100%
Share price at reporting date	**R26.18**	R22.17	**–**	R22.17
Number of employees	**6**	4	**–**	26

		2014 Rm	2013 Rm
11	**OTHER PAYABLES**		
	Other payables	**22.7**	20.5
	Loans from subsidiary companies (Annexure A)	**160.0**	645.2
		182.7	665.7
	Current	**182.7**	665.7
	Terms and conditions of loans		
	The loans from subsidiary companies are interest-free, unsecured and payable on demand.		
12	**INCOME TAX**		
12.1	**Current income tax asset**		
	Movement in asset		
	Balance at beginning	**(2.1)**	(3.3)
	Charged to income statement	**6.8**	7.1
	Paid during year	**(5.3)**	(5.9)
	Balance at end	**(0.6)**	(2.1)
12.2	**Income tax expense**		
	Current taxation		
	Current year	**2.8**	3.5
	South African normal tax	**2.8**	3.5
	Prior year overprovision	**–**	(0.9)
	Foreign countries – withholding tax	**4.0**	4.5
		6.8	7.1
	Deferred tax	**–**	(43.0)
		6.8	(35.9)

	2014 %	2013 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Foreign tax	**0.1**	0.1
Capital gains tax	**–**	(1.3)
Non-taxable items	**(27.9)**	(27.9)
Effective rate	**0.2**	(1.1)

		2014 Rm	2013 Rm
13	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividends received – listed equities	**36.1**	29.2
	Dividends received – subsidiary companies	**3 278.4**	3 393.9
	Interest income	**73.5**	48.1
	Designated at fair value through income	**0.4**	0.7
	Loans and receivables	**63.2**	34.2
	Cash and cash equivalents	**9.9**	13.2
		3 388.0	3 471.2
14	**NET REALISED AND FAIR VALUE GAINS**		
	Designated at fair value through income	**301.6**	161.8
	(Loss)/Profit on sale of shares in subsidiary company	**(2.3)**	25.2
		299.3	187.0

		2014 Rm	2013 Rm
15	**DEPRECIATION AND IMPAIRMENT EXPENSES**		
	Depreciation	0.1	0.1
	Impairment of investments in subsidiary companies	7.5	94.7
	Impairment of loans to subsidiary companies	18.3	15.0
	Impairment of loans capitalised to subsidiary companies	136.2	–
		162.1	109.8
16	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	37.6	30.0
	Contributions to medical aid funds	0.5	0.4
	Defined contribution retirement fund	2.0	2.2
	Share-based payment expenses		
	Cash-settled	30.8	18.8
	Training costs	2.0	1.1
	Other	0.1	0.2
		73.0	52.7
	Executive directors' emoluments included above.	38.7	26.8
	Details of the staff share schemes are disclosed in note 20 of the group financial statements.		
17	**OTHER EXPENSES**		
	Asset management fees	3.1	3.4
	Auditors' remuneration	0.2	2.7
	Audit fees	0.2	2.7
	Bank charges	0.1	0.1
	Consulting fees	8.5	7.8
	Information technology expenses	0.1	1.0
	Management fees	143.5	126.9
	Marketing costs	2.7	12.7
	Office costs	18.8	4.0
	Other expenses	22.4	18.3
	Company insurance	5.6	–
	Other indirect taxes	2.7	4.3
	Rental expenses	0.9	–
	Travel expenses	2.5	2.2
		211.1	183.4
	Non-executive directors' emoluments included in other expenses above.	13.5	10.8
18	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	45.4	45.5
	Interest on Eris purchase payment	–	5.7
		45.4	51.2

		2014 Rm	2013 Rm
19	**CASH FLOW FROM OPERATING ACTIVITIES**		
19.1	**Cash utilised in operations**		
	Profit before tax	**3 195.7**	3 261.1
	Adjusted for		
	Dividend received	**(3 314.5)**	(3 423.1)
	Interest received	**(73.5)**	(48.1)
	Finance costs	**45.4**	51.2
	Impairment of loans to and investments in subsidiary companies	**162.0**	109.7
	Depreciation	**0.1**	0.1
	Net realised and fair value gains	**(301.6)**	(187.0)
	Share-based payment expenses	**30.8**	18.8
	Leave pay – additional provision	**–**	0.1
	Changes in operating assets and liabilities		
	Loans and receivables	**0.6**	2.1
	Employee benefit obligations	**(29.9)**	(11.5)
	Other operating liabilities	**2.2**	2.6
		(282.7)	(224.0)
19.2	**Income tax paid**		
	Due at beginning	**2.1**	(39.7)
	Charged and provided	**(6.8)**	35.9
	Due at end	**(0.6)**	(2.1)
		(5.3)	(5.9)
19.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(22.8)**	(26.4)
	Paid 31 March	**(22.6)**	(22.6)
	Other	**–**	(5.9)
		(45.4)	(54.9)

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 263 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.

	2014 Rm	2013 Rm
Administrative charges – MMI Group Ltd	**140.8**	90.4
Administrative charges – Metropolitan Life Ltd	**–**	36.3
Asset management fee expense – Metropolitan Asset Managers Ltd	**3.1**	0.5
Asset management fee expense – Momentum Asset Management (Pty) Ltd	**2.7**	2.2
Rental expenses – MMI Group Ltd	**0.9**	–

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

A loan commitment has been made by the company to Rand Merchant Bank on behalf of MMI Strategic Investments (Pty) Ltd. The company has given a letter of comfort to Rand Merchant Bank that it will manage MMI Strategic Investments (Pty) Ltd, and will in due course put a guarantee agreement in place.

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.

	2014 Rm	2013 Rm
Assets		
Designated as at fair value through income	**1 329.0**	982.8
Equity securities		
Local listed	**1 329.0**	982.8
Loans and receivables	**557.8**	569.4
Loans	**557.5**	568.5
Accounts receivable	**0.3**	0.9
Cash and cash equivalents	**260.1**	20.0
Other assets	**19 970.2**	19 926.0
Total assets	**22 117.1**	21 498.2
Liabilities		
Amortised cost	**312.7**	312.7
Cumulative redeemable preference shares	**312.7**	312.7
Other payables	**182.7**	665.7
Loans from subsidiary companies	**160.0**	645.2
Other payables	**22.7**	20.5
Other liabilities	**28.1**	27.3
Total liabilities	**523.5**	1 005.7

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.

	2014 Carrying value Rm	2014 Fair value Rm	2013 Carrying value Rm	2013 Fair value Rm
Assets				
Loans and receivables	**557.8**	**548.5**	569.4	550.4
Accounts receivable	**0.3**	**0.3**	0.9	0.9
Loans to subsidiary companies	**44.3**	**44.3**	94.8	94.8
Loans to associates	**7.7**	**7.7**	7.7	7.7
Empowerment loans	**447.0**	**437.7**	413.7	394.7
Preference shares	**57.4**	**57.4**	51.2	51.2
Strategic loans	**1.1**	**1.1**	1.1	1.1
Cash and cash equivalents	**260.1**	**260.1**	20.0	20.0
	817.9	**808.6**	589.4	570.4
Liabilities				
Cumulative redeemable preference shares	**312.7**	**902.5**	312.7	762.2
Other payables	**182.7**	**182.7**	665.7	665.7
Loans from subsidiary companies	**160.0**	**160.0**	645.2	645.2
Other payables	**22.7**	**22.7**	20.5	20.5
	495.4	**1 085.2**	978.4	1 427.9

- 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 fair value of loans to empowerment partners and strategic loans is the discounted amount of the estimated future cash flows expected to be received. The expected future cash flows are discounted at 12% (2013: 11.5%).
- 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 2014, the expected cash flows were discounted at a current market rate of 11% (2013: 10%). 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.
- For loans from subsidiary companies, the carrying value approximates fair value as they are payable on demand.

23.3 Valuation techniques

The valuation of the company's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the input 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 is observable for the asset or liability, either directly (ie as prices) or indirectly (derived from prices) (level 2); and
- input for the asset or liability that is not based on observable market data (unobservable input) (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 require 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.

Equity securities are classified as level 1 instruments.

23 **RISK MANAGEMENT POLICIES** *continued*

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:

	2014 Rm	2013 Rm
Loans and receivables	557.8	569.4
Loans	557.5	568.5
Accounts receivable	0.3	0.9
Cash and cash equivalents	260.1	20.0
Total assets bearing credit risk	817.9	589.4

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.

	2014 Rm	2013 Rm
Cash and cash equivalents	260.1	20.0
AA	260.1	19.9
BBB	–	0.1
Unrated		
Loans and receivables	557.8	569.4
Loans	557.5	568.5
Accounts receivable	0.3	0.9
	817.9	589.4

The loans to subsidiary companies were impaired by R18.3 million (2013: R15 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

The convertible redeemable preference shares are backed mostly by listed equity securities.

Equipment, interest in subsidiaries and certain loans to subsidiaries are less liquid assets and amount to R20 527.4 million, 92.8% of total assets (2013: R20 493.3 million, 95.3%).

The remainder of the assets – R1 589.7 million, 7.2% (2013: R1 004.9 million, 4.7%) – 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
2014				
Amortised cost				
Cumulative redeemable preference shares	**312.7**	**452.1**	**45.5**	**406.6**
Other payables	**182.7**	**182.7**	**182.7**	**–**
Other liabilities	**28.1**	**28.1**	**17.1**	**11.0**
Total liabilities	**523.5**	**662.9**	**245.3**	**417.6**
2013				
Amortised cost				
Cumulative redeemable preference shares	312.7	499.1	45.5	453.6
Other payables	665.7	665.7	665.7	–
Other liabilities	27.3	27.3	25.6	1.7
Total liabilities	1 005.7	1 192.1	736.8	455.3

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.

Top five equity holdings	2014 %	2014 Rm	2013 %	2013 Rm
MTN Group Ltd	**9.9**	**130.6**	10.9	106.7
Naspers Ltd	**9.5**	**125.7**	7.3	71.9
Compagnie Financière Richemont Sa	**8.0**	**105.2**	8.4	82.7
Sasol Ltd	**7.8**	**102.9**	7.1	70.0
SABMiller Plc	**7.8**	**102.3**	8.1	79.6
	43.0	**566.7**	41.8	410.9

23 **RISK MANAGEMENT POLICIES** *continued*

23.6 **Market risk** *continued*

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.

Instrument class and weighted average rate	2014 Rm	2013 Rm
Loans and receivables – empowerment partners		
Floating rate – weighted average rate 7.33% (2013: 7%)	**447.0**	413.7
Cash and cash equivalents		
Floating rate – weighted average rate 5% (2013: 3.37%)	**260.1**	20.0
	707.1	433.7

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 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.

Management identified the risk of a sudden drop in equity market values as the most significant market risk. The equity portfolio is managed with consideration of the market conditions at any given time. If the market values of equity securities decrease by 10% on the reporting date, the approximate impact would be a reduction of R132.9 million (2013: R98.3 million) on earnings before tax. An equal and opposite impact will occur 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.

SIGNIFICANT SUBSIDIARIES

ANNEXURE A

Companies	Country of incorporation, where not South Africa	Interest held 2014 %	Interest held 2013 %	Cost 2014 Rm	Cost 2013 Rm	Loans capitalised 2014 Rm	Loans capitalised 2013 Rm
MMI Group Ltd		**100**	100	**18 096.4**	18 096.4	**–**	–
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Structured Insurance Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
Momentum Mutual Fund ICC Ltd	Guernsey	**100**	100				
Momentum Medical Scheme Administrators (Pty) Ltd		**100**	100				
Momentum Healthcare Distribution (Pty) Ltd		**100**	100				
Momentum Investment Shared Services (Pty) Ltd		**100**	100				
Momentum Investment Consulting (Pty) Ltd		**100**	100				
AdviceAtWork (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 Asset Management Swaziland (Pty) Ltd	Swaziland	**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 Manager of Managers (Pty) Ltd		**100**	100				
Advantage AM Collective Investments (Pty) Ltd		**100**	100				
Momentum Wealth (Pty) Ltd		**100**	100				
Momentum Wealth International Ltd	Guernsey	**100**	100				
Momentum Property Investments (Pty) Ltd		**100**	100				
Momentum Short-term Insurance Company Ltd		**100**	100				
MMI Short-term Insurance Administration (Pty) Ltd		**100**	100				
Momentum Interactive (Pty) Ltd		**100**	100				
Subtotal				**18 096.4**	18 096.4	**–**	–

Companies *continued*	Country of incorporation, where not South Africa	Interest held 2014 %	Interest held 2013 %	Cost 2014 Rm	Cost 2013 Rm	Loans capitalised 2014 Rm	Loans capitalised 2013 Rm
Subtotal carried forward				**18 096.4**	18 096.4	**–**	–
Metropolitan Odyssey Ltd		**100**	100	**36.0**	36.0	**–**	–
Metropolitan International Holdings (Pty) Ltd		**100**	100	**767.5**	756.0	**–**	–
Subsidiary companies							
MMI Holdings Namibia Ltd *(previously Metropolitan Life (Namibia) Ltd)*	Namibia	**96.5**	96.5				
Momentum Life Assurance Namibia Ltd	Namibia	**100**	100				
Momentum Asset Management Namibia (Pty) Ltd	Namibia	**100**	100				
Metropolitan Life (Mauritius) Ltd	Mauritius	**70**	–				
UBA Metropolitan Life Insurance Ltd	Nigeria	**50**	50				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	**96.2**	95				
Metropolitan Life Swaziland Ltd	Swaziland	**67**	67				
Metropolitan Insurance (Swaziland) Ltd *(previously Momentum Insurance (Swaziland) Ltd)*	Swaziland	**100**	100				
MMI Finance Company (Pty) Ltd *(previously Metropolitan International (Pty) Ltd)*		**100**	100	**400.0**	400.0	**252.1**	154.0
Subsidiary							
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
Metropolitan Life International Ltd		**100**	100	**47.1**	47.1	**–**	–
Metropolitan Life of Botswana Ltd	Botswana	**75.8**	75.8	**73.4**	73.4	**–**	–
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120.3**	120.3	**–**	–
Momentum Retirement Administrators (Pty) Ltd		**80**	80	**28.0**	28.0	**–**	–
MMI Strategic Investments (Pty) Ltd		**100**	–	**12.3**	–	**–**	–
Subsidiary companies							
Guardrisk Group (Pty) Ltd		**100**	–				
Guardrisk Life Ltd		**100**	–				
Guardrisk Life International Ltd	Mauritius	**100**	–				
Guardrisk Allied Products & Services (Pty) Ltd		**100**	–				
Guardrisk Premium Finance (Pty) Ltd		**100**	–				
Guardrisk Insurance Company Ltd		**100**	–				
Subtotal				**19 581.0**	19 557.2	**252.1**	154.0

SIGNIFICANT SUBSIDIARIES *CONTINUED*

ANNEXURE A

Companies *continued*	Country of incorporation, where not South Africa	Interest held 2014 %	Interest held 2013 %	Cost 2014 Rm	Cost 2013 Rm	Loans capitalised 2014 Rm	Loans capitalised 2013 Rm
Subtotal carried forward				**19 581.0**	19 557.2	**252.1**	154.0
Guardrisk Insurance Management Ltd	Mauritius	**100**	–				
Guardrisk International Ltd PCC	Mauritius	**100**	–				
MMI Holdings UK Ltd	United Kingdom	**100**	–				
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	–				
Metropolitan Asset Managers Ltd		**100**	100	**22.5**	22.5	**–**	–
Metropolitan Collective Investments (RF) (Pty) Ltd		**100**	100	**25.9**	25.9	**–**	–
Eris Property Group (Pty) Ltd		**54.3**	54.3	**261.6**	261.6	**–**	–
Metropolitan Health (Pty) Ltd *(previously Metropolitan Health Holdings (Pty) Ltd)*		**100**	100	**31.8**	31.8	**304.5**	236.9
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**100**	100				
MetHealth (Pty) Ltd		**100**	100				
Metropolitan Health Risk Management (Pty) Ltd		**100**	100				
Momentum Trust Ltd		**100**	100	**7.5**	7.5	**–**	–
Less: impairments				**(381.2)**	(373.7)	**(136.2)**	–
Total interest in subsidiary companies				**19 549.1**	19 532.8	**420.4**	390.9

Other loans to/(from) subsidiary companies	2014 Rm	2013 Rm
Metropolitan Capital (Pty) Ltd	**46.2**	46.2
MMI Infrastructure and Operations (Pty) Ltd	**128.5**	128.5
MetHealth (Pty) Ltd	**31.0**	63.2
Union Money (Pty) Ltd	**2.0**	2.0
	207.7	239.9
Less: impairments	**(163.4)**	(145.1)
Loans to subsidiary companies	**44.3**	94.8
Metropolitan Life Ltd	**–**	(54.4)
MMI Group Ltd	**(159.7)**	(590.4)
Momentum Asset Management (Pty) Ltd	**(0.3)**	(0.4)
Loans from subsidiary companies	**(160.0)**	(645.2)

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

Collective investment schemes	Interest held 2014 %	Interest held Restated 2013 %	Carrying value 2014 Rm	Carrying value Restated 2013 Rm
Momentum IF Global Equity Class A USD Fund	**77.5**	52.3	**14 120**	6 669
Momentum MF Global Balanced A USD Fund	**100**	84.5	**7 231**	6 800
Momentum MF Global Aggressive Sub Fund	**100**	95.0	**6 133**	4 418
Momentum Money Market Fund	**41.1**	*	**3 658**	*
Momentum Balanced Fund	**72.5**	70.4	**3 204**	2 556
Momentum MoM Ultra Long-Term Value Fund	**99.2**	61.5	**2 402**	866
Momentum MoM Macro Value Fund	**99.1**	99.8	**2 199**	1 365
Momentum MoM High Growth Fund	**99.8**	99.8	**1 966**	1 294
Momentum IF Global Fixed Income A USD Fund	**92.8**	59.1	**1 615**	1 163
Momentum MoM Real Return Fund	**100**	94.1	**1 604**	1 084
Momentum Best Blend Multifocus Fund of Funds	**99.5**	99.7	**1 534**	1 323
Momentum Global Equity Fund	**97.4**	92.2	**1 470**	932
Momentum MoM Property Equity Fund	**99.7**	99.1	**1 354**	1 005
Momentum Global Managed Fund IC Ltd	**95.6**	70.7	**1 222**	761
Momentum IF Global Emerging Markets A USD Fund	**89.4**	56.7	**1 141**	703
Momentum MoM Emerging Manager Value Fund	**100**	99.8	**1 131**	574
Momentum MoM Emerging Manager Growth Fund	**100**	99.8	**1 122**	672
Momentum MF Global Moderate Sub Fund	**100**	100	**967**	732
Momentum MF International Equity A USD Fund	**100**	100	**951**	824
Momentum MoM Focused Equity Fund	**99.4**	92.1	**921**	1 904
Ampersand Momentum CPI Plus 4% Fund of Funds	**57.4**	54.3	**845**	712
Momentum Best Blend Balanced Fund of Funds	**72.6**	73.8	**826**	605
Momentum GF Global Contrarian Fund	**100**	*	**754**	*
Momentum MOM Specialist Equity Fund (A)	**100**	*	**749**	*
Ampersand Momentum CPI Plus 2% Fund of Funds	**56.5**	51.2	**657**	582
Momentum Best Blend Specialist Equity Fund (A)	**53.4**	*	**620**	*
Momentum MoM Active Bond Fund (B1)	**100**	*	**590**	*
Momentum GF Global Franchise Fund	**100**	*	**579**	*
Momentum Optimal Yield Fund	**94.9**	88.5	**572**	520
Momentum Best Blend Flexible Income Fund	**58.8**	36.7	**539**	558
Momentum Property Fund	*****	100	*****	770
Momentum MoM Money Market Fund	*****	100	*****	723

* 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 Contrarian Fund	Luxembourg
Momentum GF Global Franchise Fund	Luxembourg

UNCONSOLIDATED STRUCTURED ENTITIES

ANNEXURE B

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.

	2014 Rm	Restated 2013 Rm
Collective investment schemes		
Local and foreign	**110 023**	92 496
Equity	**82 792**	48 115
Interest-bearing	**15 919**	19 897
Property	**2 862**	3 468
Mixed	**6 690**	19 228
Money market	**1 760**	1 788
Other unit-linked investments	**22 358**	20 576
Local and foreign		
Equity	**7 448**	9 878
Interest-bearing	**2 020**	5 083
Mixed	**10 935**	4 879
Commodity	**1 955**	736
	132 381	113 072
Designated at fair value through income: unit-linked investments	**120 477**	100 036
Investments in associates designated at fair value through income	**11 900**	13 031
Available-for-sale: local unlisted quoted collective investment schemes	**4**	5
	132 381	113 072

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	% interest held	Nature of relationship	Principal place of business
2014			
Fairtree Equity Prescient Fund	**80.9%**	**Standard investment**	**Bellville**
Momentum Enhanced Yield Fund	**18.5%**	**Standard investment**	**Sandton**
2013			
Momentum Money Market Fund	29.9%	Standard investment	Sandton
PSG Konsult Moderate Fund of Funds	21.6%	Standard investment	Constantia

Summarised financial information relating to the associates on the previous page:

	2014		2013	
	Fairtree Equity Prescient Fund Rm	Momentum Enhanced Yield Fund Rm	Momentum Money Market Fund Rm	PSG Konsult Moderate Fund of Funds Rm
Current assets	**51**	**5**	330	17
Non-current assets	**1 349**	**5 493**	8 536	6 444
Current liabilities	**23**	**95**	94	6
Revenue	**63**	**458**	514	131
Earnings	**62**	**413**	468	63
Dividends received from associate	**22**	**6**	143	–

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]		Income received[2]	
				2014 Rm	2013 Rm	2014 Rm	2013 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	**1 093**	1 224	**37**	44
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	**511**	509	**30**	24
				1 604	1 733	**67**	68

1 Included in securities designated at fair value through income in the statement of financial position.
2 Consists of interest income and fair value gains/losses.
3 The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

ANNEXURE C

STATEMENT OF FINANCIAL POSITION	Audited As previously reported Rm	Reclassi-fication of CIS Rm	Reclassi-fication of cell captives Rm	Restated 30.06.2013 Rm
ASSETS				
Intangible assets	11 769	–	–	11 769
Owner-occupied properties	1 488	–	–	1 488
Property and equipment	348	–	–	348
Investment property	6 433	–	–	6 433
Investment in associates	121	–	–	121
Employee benefit assets	327	–	–	327
Financial instrument assets				
Securities designated at fair value through income	271 227	17 220	1 054	289 501
Investment in associates at fair value through income	17 424	(4 393)	–	13 031
Derivative financial instruments	3 173	–	–	3 173
Available-for-sale	953	–	–	953
Held-to-maturity	69	–	–	69
Loans and receivables	5 001	707	(11)	5 697
Reinsurance contracts	1 519	–	(174)	1 345
Deferred income tax	124	–	–	124
Properties under development	98	–	–	98
Insurance and other receivables	2 857	–	(29)	2 828
Current income tax assets	108	–	–	108
Cash and cash equivalents	19 424	2 430	421	22 275
Non-current assets held for sale	680	–	–	680
Total assets	343 143	15 964	1 261	360 368
EQUITY				
Equity attributable to owners of the parent	23 473	–	–	23 473
Share capital	13 803	–	–	13 803
Other components of equity	1 631	–	–	1 631
Retained earnings	8 039	–	–	8 039
Non-controlling interests	391	–	–	391
Total equity	23 864	–	–	23 864
LIABILITIES				
Insurance contract liabilities				
Long-term insurance contracts	96 806	–	156	96 962
Capitation contracts	11	–	–	11
Financial instrument liabilities				
Investment contracts	183 506	–	1 207	184 713
– with discretionary participation features	24 937	–	–	24 937
– designated at fair value through income	158 569	–	1 207	159 776
Designated at fair value through income	18 361	15 810	–	34 171
Derivative financial instruments	2 545	2	–	2 547
Amortised cost	1 246	–	–	1 246
Deferred income tax	3 917	–	–	3 917
Employee benefit obligations	1 328	–	–	1 328
Other payables	11 112	152	(102)	11 162
Provisions	180	–	–	180
Current income tax liabilities	267	–	–	267
Total liabilities	319 279	15 964	1 261	336 504
Total equity and liabilities	343 143	15 964	1 261	360 368

INCOME STATEMENT	Audited As previously reported Rm	Reclassification of CIS Rm	Reclassification of cell captives Rm	Interest rate swaps Rm	Restated 12 mths to 30.06.2013 Rm
Insurance premiums	26 436	–	(1)	–	26 435
Insurance premiums ceded to reinsurers	(3 132)	–	1	–	(3 131)
Net insurance premiums	23 304	–	–	–	23 304
Fee income	6 234	(29)	–	–	6 205
Investment contracts	1 901	–	–	–	1 901
Trust and fiduciary services	1 875	(38)	–	–	1 837
Health administration	1 866	–	–	–	1 866
Other fee income	592	9	–	–	601
Investment income	13 537	788	50	(1 329)	13 046
Net realised and fair value gains	29 152	1 322	74	311	30 859
Net income	72 227	2 081	124	(1 018)	73 414
Insurance benefits and claims	21 873	–	(1)	–	21 872
Insurance claims recovered from reinsurers	(1 546)	–	1	–	(1 545)
Net insurance benefits and claims	20 327	–	–	–	20 327
Change in liabilities	9 677	–	(372)	–	9 305
Change in insurance contract liabilities	8 525	–	(438)	–	8 087
Change in investment contracts with DPF liabilities	1 237	–	2	–	1 239
Change in reinsurance provisions	(85)	–	64	–	(21)
Fair value adjustments on investment contract liabilities	22 614	–	101	–	22 715
Fair value adjustments on collective investment scheme liabilities	882	1 900	–	–	2 782
Depreciation, amortisation and impairment expenses	1 144	–	–	–	1 144
Employee benefit expenses	4 494	–	–	–	4 494
Sales remuneration	3 015	–	46	–	3 061
Other expenses	4 249	180	47	–	4 476
Expenses	66 402	2 080	(178)	–	68 304
Results of operations	5 825	1	302	(1 018)	5 110
Share of profit of associates	12	–	–	–	12
Finance costs	(1 684)	(1)	–	1 018	(667)
Profit before tax	4 153	–	302	–	4 455
Income tax expense	(1 502)	–	(302)	–	(1 804)
Earnings for the year	2 651	–	–	–	2 651
Attributable to:					
Owners of the parent	2 587	–	–	–	2 587
Non-controlling interests	32	–	–	–	32
MMIGL preference shares	32	–	–	–	32
	2 651	–	–	–	2 651
Basic earnings per ordinary share (cents)	166.0	–	–	–	166.0
Diluted earnings per ordinary share (cents)	164.2	–	–	–	164.2

RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS *CONTINUED*

ANNEXURE C

STATEMENT OF CASH FLOWS	Audited As previously reported Rm	Reclassi-fication of CIS Rm	Reclassi-fication of cell captives Rm	Interest rate swaps Rm	Restated 12 mths to 30.06.2013 Rm
Cash flow from operating activities					
Cash generated by operations	(3 037)	666	409	311	(1 651)
Interest received	10 496	682	49	(1 329)	9 898
Dividends received	2 241	99	1	–	2 341
Income tax paid	(1 692)	–	(302)	–	(1 994)
Interest paid	(1 687)	(1)	–	1 018	(670)
Net cash inflow from operating activities	6 321	1 446	157	–	7 924
Cash flow from investing activities					
Acquisition of subsidiaries	(411)	–	–	–	(411)
Transactions with minority shareholders	73	–	–	–	73
Transaction costs on acquisition of subsidiaries and associates	(6)	–	–	–	(6)
Loans advanced to related parties	(68)	–	–	–	(68)
Purchase of owner-occupied properties	(36)	–	–	–	(36)
Purchase of property and equipment	(206)	–	–	–	(206)
Disposal of property and equipment	8	–	–	–	8
Purchase of intangible assets	(109)	–	–	–	(109)
Disposal of intangible assets	2	–	–	–	2
Net cash outflow from investing activities	(753)	–	–	–	(753)
Cash flow from financing activities					
Shares repurchased and cancelled	(7)	–	–	–	(7)
Increase in other borrowings	309	–	(68)	–	241
Dividends paid to equity holders	(2 886)	–	–	–	(2 886)
Preference shares acquired	(388)	–	–	–	(388)
Preference share dividends paid	(32)	–	–	–	(32)
Dividends paid to non-controlling interest shareholders	(97)	–	–	–	(97)
Net cash outflow from financing activities	(3 101)	–	(68)	–	(3 169)
Net cash flow	2 467	1 446	89	–	4 002
Cash resources and funds on deposit at beginning	16 957	984	332	–	18 273
Cash resources and funds on deposit at end	19 424	2 430	421	–	22 275
Made up as follows:					
Cash and cash equivalents as per statement of financial position	19 424	2 430	421	–	22 275
	19 424	2 430	421	–	22 275

SHAREHOLDER PROFILE

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors (excluding shares in staff share scheme)[1]	9	0.2	3
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	1	24.5	392
Government Employees Pension Fund	1	10.4	167
Public			
Private investors	24 807	4.2	67
Pension funds	295	14.0	224
Collective investment schemes and mutual funds	1 145	27.5	442
Banks and insurance companies	237	12.1	195
Total	26 497	100.0	1 604

[1] Includes shares of directors who resigned during the year.

An estimated 423 million shares (2013: 420 million shares) representing 26.4% (2013: 26.2%) 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	22 239	83.9	23	1.4
5 001 – 10 000	1 732	6.5	13	0.8
10 001 – 50 000	1 629	6.2	36	2.2
50 001 – 100 000	329	1.2	23	1.5
100 001 – 1 000 000	447	1.7	139	8.7
1 000 001 and more	121	0.5	1 370	85.4
Total	26 497	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	392	24.5
Government Employees Pension Fund	167	10.4
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
FirstRand Empowerment Trust	48	3.0
Total	721	45.0

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 2014, are disclosed.

STOCK EXCHANGE PERFORMANCE

	2014	2013
12 months		
Value of listed shares traded (rand million)	15 362	16 060
Volume of listed shares traded (million)	637	733
Shares traded (Percentage of average listed shares in issue)	41	47
Value of shares traded – life insurance (J857 – Rbn)	165	155
Value of shares traded – top 40 index (J200 – Rbn)	3 069	3 059
Trade prices		
Highest (cents per share)	2 783	2 700
Lowest (cents per share)	2 039	1 792
Last sale of period (cents per share)	2 625	2 217
Percentage (%) change during period	18	23
Percentage (%) change – life insurance sector (J857)	28	37
Percentage (%) change – top 40 index (J200)	31	18
30 June		
Price/diluted core headline earnings (segmental) ratio	11.6	11.0
Dividend yield % (dividend on listed shares)	5.4	5.7
Dividend yield % – top 40 index (J200)	2.6	2.9
Total shares issued (million)		
Listed on JSE	1 570	1 570
Treasury shares held on behalf of contract holders	(14)	(14)
Basic number of shares in issue	1 556	1 556
Treasury shares held on behalf of contract holders	14	14
Convertible redeemable preference shares	34	34
Diluted number of shares in issue [1]	1 604	1 604
Market capitalisation at end (Rbn)[2]	42	36
Percentage (%) of life insurance sector	12	13

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

2 The market capitalisation is calculated on the fully diluted number of shares in issue.

SHAREHOLDER DIARY

Financial year-end	30 June	
Reporting	Interim results	5 March 2014
	Announcement of year-end results	10 September 2014
	Annual report published	30 September 2014
	Annual general meeting	25 November 2014
Ordinary dividends	**Interim**	
	Declared	5 March 2014
	Remat/Demat	24 March 2014 to 28 March 2014
	Record date	28 March 2014
	Paid	31 March 2014
	Final	
	Declared	9 September 2014
	Remat/Demat	29 September 2014 to 3 October 2014
	Record date	3 October 2014
	Paid	6 October 2014

ADMINISTRATION

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2000/031756/06

American Depository Receipt
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Merrill Lynch

Transfer secretaries – South Africa
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Braamfontein
PO Box 4844, Johannesburg 2000

Sponsor – Namibia
Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia
Transfer Secretaries (Pty) Ltd
Shop 8, Kaiserkrone Centre
Post Street Mall, Windhoek, Namibia
PO Box 2301, Windhoek, Namibia

Auditors
PricewaterhouseCoopers Inc.

Share codes
JSE – MMI
NSX – MIM
Abbreviated name – MMI HLDGS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE TO MEMBERS OF THE 13TH (THIRTEENTH) ANNUAL GENERAL MEETING OF MMI HOLDINGS LIMITED (“MMI” OR THE “COMPANY”)

Notice is hereby given (the “notice”) that the 13th (thirteenth) annual general meeting (“AGM”) of the shareholders of the company, for the year ended 30 June 2014, will be held at 12:00 on Tuesday, 18 November 2014, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion. Registration for attendance at the AGM will commence at 11:00.

This document is important and requires your immediate attention

If you are in any doubt about what action you should take, consult your broker, Central Securities Depository Participant (“CSDP”), banker, financial adviser, accountant or other professional adviser immediately.

If you have disposed of all your shares in MMI, please forward this document, together with the enclosed form of proxy, to the purchaser of such shares or the broker, banker or other agent through whom you disposed of such shares.

Included in this document are the following:

- The resolutions to be proposed at the meeting, together with explanatory notes. There are also guidance notes if you wish to attend the meeting or to vote by proxy.
- A proxy form for completion, signature and submission to the transfer secretaries of the company by shareholders holding MMI ordinary shares in certificated form or recorded in sub-registered electronic form in “own name”.

Electronic participation in the AGM

Please note that the company intends to make provision for shareholders of MMI, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so in the manner and form set out below. In this regard, video-conferencing facilities will only be made available in the Executive VC Room, Parc du Cap, Mispel Road, Bellville, Cape Town.

Should you wish to participate in the AGM electronically, you or your proxy are required to confirm your attendance and participation at the Bellville location by delivering written notice to the company, at the address detailed hereunder, by no later than Tuesday, 11 November 2014. The abovementioned facility will only be made available on the date of the AGM if you have notified the company on/before 11 November 2014 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention in writing, this facility will not be available on the date of the AGM.

Please note that the cost of the video-conferencing facility will be for the account of the company.

Please also note the important provisions regarding identification of shareholders attending the AGM, the appointment of proxies and voting detailed on page 272 of this notice.

RECORD DATE AND LAST DAY TO TRADE

The MMI board of directors (the “board”) has determined that the record date for the purpose of determining which shareholders of the company are entitled to receive this notice was Friday, 12 September 2014, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 7 November 2014. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 7 November 2014, will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote at the AGM will therefore be Friday, 31 October 2014.

BUSINESS TO BE TRANSACTED

The purpose of the AGM is for the following business to be transacted:

- presentation of the report of the board of directors of the company
- presentation of the Audit Committee’s report
- verbal report from the Social, Ethics and Transformation Committee (A full copy of this report can be found on pages 273 and 274.)
- presentation of the annual financial statements of the company for the financial year ended 30 June 2014 (Should you require a complete copy of the annual financial statements for the preceding financial year, this can be accessed on the MMI website **www.mmiholdings.com**.)
- election of the directors of the company
- approval of the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner
- approval of the appointment of the Audit Committee of the company
- to consider and, if deemed fit, to pass, with or without modification, the special and ordinary resolutions set out below
- to transact such other business as may be transacted at an AGM

For each ordinary resolution to be adopted, it must be supported by at least 50% (fifty percent) plus 1 (one) of the voting rights exercised on the resolution, unless a higher requirement has been prescribed in terms of the Listings Requirements of the JSE Limited (the “Listings Requirements”).

For each special resolution to be adopted, it must be supported by at least 75% (seventy five percent) of the voting rights exercised on the resolution.

1. ORDINARY RESOLUTION NUMBER 1

Election of director appointed by the board

Mr LL von Zeuner was appointed by the board of directors of the company with effect from 1 January 2014. In accordance with the Companies Act, 71 of 2008, as amended (the "Act") and the memorandum of incorporation of the company (the "MOI"), Mr von Zeuner resigns and, being available, has offered himself for election by shareholders of the company. His brief curriculum vitae is published on the MMI website **www.mmiholdings.com**.

Mr von Zeuner's performance and contribution was assessed as part of the annual board and committee assessment and the member self-evaluation process, and the board recommends his election as a director of the company. Accordingly, the shareholders are asked to consider and, if deemed fit, to elect Mr von Zeuner as a director of the company.

"Resolved as an ordinary resolution that Mr LL von Zeuner be and is hereby elected as a director of the company with immediate effect."

Effect of ordinary resolution number 1

If ordinary resolution number 1 is passed, the effect will be that Mr LL von Zeuner will be appointed as a director of the company.

2. ORDINARY RESOLUTION NUMBER 2

Retirement by rotation and re-election of directors

In accordance with the MOI, at least one third of the directors of the company are required to retire by rotation as directors of the company at this AGM. In these circumstances Mrs F Jakoet, Mr MJN Njeke, Prof JD Krige, Mr V Nkonyeni and Mr SE Nxasana retire by rotation in accordance with the MOI and, being eligible, have offered themselves for re-election.

Brief curricula vitae of those directors standing for re-election are published on the MMI website **www.mmiholdings.com**.

Accordingly, the shareholders are asked to consider and, if deemed fit, to re-elect those directors by way of passing the separate ordinary resolutions set out below:

Ordinary resolution 2.1

"Resolved as an ordinary resolution that Mrs F Jakoet be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.2

"Resolved as an ordinary resolution that Mr MJN Njeke be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.3

"Resolved as an ordinary resolution that Prof JD Krige be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.4

"Resolved as an ordinary resolution that Mr V Nkonyeni be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.5

"Resolved as an ordinary resolution that Mr SE Nxasana be and is hereby re-elected as a director of the company with immediate effect."

Effect of ordinary resolution number 2

If each ordinary resolution detailed in 2 above is passed, the effect will be that Mrs F Jakoet, Mr MJN Njeke, Prof JD Krige, Mr V Nkonyeni and Mr SE Nxasana will be appointed as directors of the company.

3. ORDINARY RESOLUTION NUMBER 3

Re-appointment of external auditors

"Resolved as an ordinary resolution that the company hereby approves the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner."

Note that the Audit Committee has recommended the re-appointment of PricewaterhouseCoopers Inc. as auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner.

Effect of ordinary resolution number 3

If ordinary resolution number 3 is passed, the effect will be that PricewaterhouseCoopers Inc. will be re-appointed as auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner.

4. ORDINARY RESOLUTION NUMBER 4

Appointment of the Audit Committee

The company is required to approve the appointment of the Audit Committee of the company.

Accordingly, the shareholders are requested to consider and approve the appointment of the Audit Committee by way of passing the separate ordinary resolutions set out below:

The board is also satisfied that the proposed members meet the provisions of the Act, that they are independent and therefore recommends their appointment.

Ordinary resolution 4.1

"Resolved as an ordinary resolution that the appointment of Mr FJC Truter as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.2

"Resolved as an ordinary resolution that the appointment of Mr SA Muller as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.3

"Resolved as an ordinary resolution that the appointment of Mrs F Jakoet as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.4

"Resolved as an ordinary resolution that the appointment of Mr LL von Zeuner as a member of the Audit Committee be and is hereby approved with immediate effect."

Effect of ordinary resolution number 4

If each ordinary resolution detailed in 4 above is passed, the effect will be that Mr FJC Truter, Mr SA Muller, Mrs F Jakoet and Mr LL von Zeuner will be appointed as the Audit Committee of the company.

5. ORDINARY RESOLUTION NUMBER 5

Non-binding advisory vote on the remuneration policy

"Resolved as an ordinary resolution that, as contemplated in King III which requires that the remuneration policy of the company be tabled to shareholders for a non-binding advisory vote, the shareholders approve the remuneration policy of the company (excluding the remuneration of the non-executive directors), read together with the remuneration report contained on page 57 of the integrated report and also on the company's website at **www.mmiholdings.com**."

Effect of ordinary resolution number 5

If ordinary resolution number 5 is passed as a non-binding advisory vote, the effect will be that the remuneration policy of the company will be approved.

6. ORDINARY RESOLUTION NUMBER 6

Appointment of director or company secretary to implement resolutions

"Resolved as an ordinary resolution that any one director of the company or the company secretary be and is hereby authorised to take such steps, do all such things and sign all such documents as may be necessary or required for the purpose of implementing the ordinary and special resolutions proposed and passed at this meeting."

Effect of ordinary resolution number 6

If ordinary resolution number 6 is passed, the effect will be that any director of the company or the company secretary will be authorised to attend to the necessary to implement the resolutions and to sign all documentation required to record the ordinary and special resolutions.

7. SPECIAL RESOLUTION NUMBER 1

Approval of directors' remuneration

In compliance with the provisions of section 66(9) of the Act, the shareholders are required to approve the remuneration of the non-executive directors of the company. It is proposed that non-executive directors of the company will be paid a fixed annual fee for the services they render to the company as detailed in special resolution number 1 below. The proposed directors' fees will not be dependent on attendance by the relevant director of board and committee meetings, and have been determined by the Remuneration Committee and approved by the board. The Remuneration Committee approved an increase of 6.5% overall (to the fees approved at the previous AGM) in respect of the non-executive directors' fees. The proposed directors' fees will be adjusted on an annual basis.

"Resolved as a special resolution that non-executive directors of the company shall be paid fees for services rendered, in accordance with the scale of remuneration set out below with effect from 1 September 2014, and such scale of remuneration shall be valid until the company's next AGM:

Chairperson of the board	R1 213 620
Deputy chairperson of the board	R606 840
Board member	R436 650
Chairperson of audit committee	R364 070
Member	R181 480
Chairperson of actuarial committee	R302 830
Member	R181 480
Chairperson of remuneration committee	R302 830
Member	R150 860
Chairperson of risk, capital and compliance committee	R364 070
Member	R181 480
Chairperson of social, ethics and transformation committee	R242 720
Member	R150 860
Chairperson of nominations committee	R181 480
Member	R90 740
Chairperson of fair practices committee	R242 720
Member	R150 860
Chairperson of board*	R242 700
Member*	R150 800
Chairperson of divisional audit panel	R181 480
Member	R121 300
Ad hoc work (hourly)	R4 250

* Boards established for segments and the Product House in terms of the new MMI client-centric model

The revised scale of remuneration will be effective from 1 September 2014 in accordance with company policy. Therefore, the difference (if any) between the remuneration paid to non-executive directors in terms of the scale of fees approved at the company's previous AGM held in 2013 and the scale approved in terms of special resolution number 1 above (ie the shortfall) in the period since 1 September 2014, shall be paid to non-executive directors.

Executive directors shall not be remunerated for their services as directors of the company or its subsidiaries."

Reason for and effect of special resolution number 1
The reason for special resolution number 1 is to obtain shareholders' approval for payment by the company of non-executive directors' remuneration as determined by the Remuneration Committee and approved by the board, and as detailed above. The passing of special resolution number 1 will have the effect that the company will be authorised to pay non-executive directors fees in accordance with the scale of remuneration detailed above for the services rendered to the company as directors.

8. SPECIAL RESOLUTION NUMBER 2
General approval to provide financial assistance for subscription or purchase of securities in related or inter-related entities in terms of section 44 of the Companies Act
It is hereby noted that the company may from time to time provide financial assistance in terms of section 44 of the Act, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company (as contemplated in the Act, including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the "affiliates"), or for the purchase of any securities of the company or its affiliates, on such specific terms as may be authorised by the board.

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such Special Resolution unless the board:

1. is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (section 44(3)(b)(i)); and
2. is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 44(3)(b)(ii)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide financial assistance for subscription and purchase of securities as set out in section 44 of the Act.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 44 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates (including, without limitation, the giving of a guarantee to any subscriber, holder or purchaser of preference shares in any affiliate, as security for such affiliate's obligations under such preference shares), as set out in section 44 of the Act, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide financial assistance as contemplated in section 44 of the Act, on such terms and conditions and for such amounts as the board may determine."

Reason for and effect of special resolution number 2
The reason for special resolution number 2 is to grant the board a general authority in terms of the Act to cause the company to provide financial assistance by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates, as set out in section 44 of the Act in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 2 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance as set out in section 44 of the Act should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

9. SPECIAL RESOLUTION NUMBER 3

General approval to provide financial assistance to related or inter-related entities in terms of section 45 of the Companies Act
It is hereby noted that the company may from time to time provide financial assistance in terms of section 45 of the Act to persons who are related or inter-related (as contemplated in the Act) to the company (including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the "affiliates"), whether in the form of loans and/or loan facilities, guarantees and/or guarantee facilities, mortgages, pledges, cessions, bonds or otherwise, on such specific terms as may be authorised by the board (collectively, for the purposes of this resolution, "financial assistance").

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such Special Resolution unless the board:

1. is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (section 45(3)(b)(i)); and
2. is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 45(3)(b)(ii)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide such financial assistance to affiliates.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 45 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance to affiliates, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Act, on such terms and conditions and for such amounts as the board may determine."

Reason for and effect of special resolution number 3
The reason for special resolution number 3 is to grant the board a general authority in terms of section 45 of the Act to cause the company to provide financial assistance to any affiliate in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 3 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance to affiliates should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

10. SPECIAL RESOLUTION NUMBER 4

General approval of share buy-back
It is hereby noted that the company and/or its subsidiaries may from time to time acquire securities issued by the company. In this regard, it is proposed that the company renew its general approval for a share buy-back with the following special resolution:

"Resolved as a special resolution that the company hereby approves, by way of a general approval, the repurchase by the company or any of its subsidiaries from time to time of shares issued by the company upon such terms and conditions and in such amounts as the board of the company may from time to time determine, but subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, and subject further to the following conditions:

- Any acquisition in terms hereof may only be effected through the order book operated by the JSE trading system and may only be done without any prior understanding or arrangement between the company and the counterparty.
- The company is authorised thereto by its MOI.
- This general approval shall be valid only until the company's next AGM, provided that it does not extend beyond 15 (fifteen) months from the date of this resolution, during which time this general approval may be varied or revoked by special resolution passed at a general meeting of the company.
- Any such acquisitions of the company's shares shall be announced when an aggregate of 3% (three percent) of the initial number of shares of the relevant class has been purchased and for each 3% (three percent) in aggregate of the initial number of shares of that class acquired thereafter.
- In determining the price at which the ordinary shares are repurchased by the company or its subsidiary in terms of this general authority, the maximum price at which such shares may be repurchased will not be greater than 10% (ten percent) above the weighted average of the market value for such ordinary shares for the 5 (five) business days immediately preceding the date of repurchase of such shares.
- In the case of an acquisition by a subsidiary of the company of shares in the company under this general approval, such acquisition shall be limited to a maximum of 10% (ten percent) in aggregate of the number of issued shares of any class of shares of the company, taken together with all the shares held by all the subsidiaries of the company, at the time of such acquisition.
- The general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed a maximum of 20% (twenty percent) of the company's issued shares of that class in any one financial year.
- The board shall, by resolution, authorise the repurchase, confirm that the company has passed the solvency and liquidity test detailed in the Companies Act in relation to the repurchase of securities, and confirm that since the solvency and liquidity test was applied, there have been no material changes to the financial position of the company or the group.
- At any time, the company shall only appoint one agent to effect any acquisitions on the company's behalf in terms of this general approval.
- The company or its subsidiaries may not acquire the company's shares during a prohibited period as defined in terms of the Listings Requirements, unless it has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation), and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period.
- A general repurchase of the company's shares shall not be effected before the JSE has received written confirmation from the company's sponsor (the "sponsor"), in terms of paragraph 2.12 of the Listings Requirements, in respect of the directors' working capital statement."

Directors' statement in relation to the share repurchase as required in terms of the Listings Requirements
Pursuant to, and in terms of, the Listings Requirements, the board herewith states that in determining the method by which the company intends to repurchase its shares, the maximum number of shares to be repurchased and the dates upon which such repurchases will take place, the board will only make such repurchases if, at the time of the repurchase, the board is of the opinion that the requirements of sections 4 and 48 of the Act and the Listings Requirements will have been complied with, and that:

- the company and the group will be able in the ordinary course of business to pay its debts as they become due for a period of 12 (twelve) months after the date of this notice.
- the consolidated assets of the company and the group will be in excess of the consolidated liabilities of the company and the group for a period of 12 (twelve) months following the date of this notice. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements, which comply with the Act.
- the ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice.
- the working capital available to the company and the group will be adequate for ordinary business purposes for a period of at least 12 (twelve) months after the date of this notice.

Reason for and effect of special resolution number 4
The reason for special resolution number 4 is to grant the board a general authority, in terms of the Listings Requirements and the MOI, for the acquisition by the company, or any subsidiary, of the company's shares. The passing of special resolution number 4 will have the effect of providing the board with the flexibility, subject to the provisions of the Act and the Listings Requirements, to acquire the company's shares should it be in the interests of the company to do so. This general authority shall be valid until its variation or revocation by special resolution at any subsequent general meeting of the company, provided that the general authority shall not be extended beyond 15 (fifteen) months from the date of approval of this special resolution.

GENERAL STATEMENTS AND INFORMATION

Listings Requirements
In accordance with the Listings Requirements, the following information relating to the matters detailed below can be found on the relevant page/s of the integrated report, namely:

- the directors and management of the company – pages 26, 27, 32 and 33
- the major shareholders of the company – page 263
- the directors' interests in the company – pages 52 and 53
- the share capital of the company – page 243

Statement of accuracy of information

The directors, whose names are set out on pages 26 and 27 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information contained in this notice, the integrated report and accompanying documents, and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice, integrated report and accompanying documents contain all information required by law and the Listings Requirements.

Litigation statement

The directors, whose names are given on pages 26 and 27 of the integrated report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the group's financial position.

Material changes

Other than the facts and developments reported on in the integrated report, no material changes in the financial or trading position of the company and its subsidiaries have occurred between 30 June 2014 and the date of this notice.

Shareholder identification, proxies and voting

In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.

If you hold certificated shares (ie have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (ie have specifically instructed your CSDP to hold your shares in your own name), then:

- you are entitled to attend and vote at the AGM or, alternatively,
- in accordance with the provisions of section 58 of the Act, you are entitled to appoint one or more proxies (who need not be shareholders of the company) to attend, speak and, on a poll, to vote or abstain from voting in your stead by completing the form of proxy enclosed with the notice. You should pay careful attention to the notes set out at the end of the form of proxy. The form of proxy must be received at the transfer secretaries office of the company, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), by not later than 12:00 on Friday, 14 November 2014, or must be delivered to the MMI company secretary/Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion by no later than 11:00 on Tuesday, 18 November 2014.

If you hold dematerialised shares (ie have replaced the paper share certificates representing your shares with electronic records of ownership under the JSE's electronic settlement system, Strate Limited ("Strate")), through a CSDP or broker, other than dematerialised shareholders with "own name" registration, you are not registered as a shareholder of the company but your CSDP or broker is so registered. In these circumstances, and subject to the mandate between yourself and your CSDP or broker (or their nominee),

- if you wish to attend the AGM, you must inform your CSDP or broker of your intention to attend and obtain the necessary letter of representation to do so from your CSDP or broker or, alternatively,
- if you are unable to attend the AGM but wish to be represented thereat, you should provide your CSDP or broker with your voting instructions. This must be done in the manner and time stipulated in the mandate between you and the CSDP or broker concerned. You should not complete the attached form of proxy.

On a poll, every shareholder present in person or represented by proxy shall have the number of votes determined in accordance with the voting rights associated with the shares held by such shareholder, which in the case of the company is one vote for every ordinary share held by such shareholder.

Directors: MJN Njeke (Chairman), JP Burger (Deputy chairman), NAS Kruger (Group chief executive officer), PE Speckmann (Group finance director), NDL Motsei (Executive), L Crouse, F Jakoet, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, SE Nxasana, KC Shubane, FJC Truter, BJ van der Ross, JC van Reenen, LL von Zeuner.

By order of the board

Maliga Chetty
Group company secretary

9 September 2014

Registered office
268 West Avenue
Centurion
0157

REPORT BY THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

Report by the Social, Ethics and Transformation Committee to be presented at the 13th (thirteenth) annual general meeting of the shareholders of the company to be held at 12:00 on Tuesday, 18 November 2014 in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion

INTRODUCTION

The Social, Ethics and Transformation Committee (SETC) is mandated and authorised by the Board of Directors of MMI Holdings Limited ("MMI" or "the Company") to fulfil the following monitoring and evaluation roles:

- Transformation, focusing on Broad-Based Black Economic Empowerment and Employment Equity;
- Compliance with relevant Social, Ethical and Legal requirements of the group as well as the Best Practice Codes;
- Risk, compliance and Treating Customers Fairly as they relate to ethical behaviour within the group;
- Environmental sustainability; and
- Corporate Social Investment.

KEY ACTIVITIES OF THE COMMITTEE

Transformation and People Practices

Transformation remains the key focus area of the SETC. In doing this the committee monitors the progress of the Group in ensuring that the racial imbalances of the past are corrected and that leadership and talent is encouraged by positive and affirmative policies.

In the June 2013 Financial Sector Code (FSC) audit, MMI maintained its level two rating, however it was exempted from Empowerment Financing and Access to Financial Services due to the standards not being finalised. The MMI Group Transformation team is progressing with the FY2014 FSC self-assessment with the aim of maintaining the level 2 status, taking into account the elements that were exempted in 2013. The due date for the 2014 FSC audit is the 17th of February 2015 (expiry date of the 2013 certificate).

In October 2013, the DTI released the Revised Codes of Good Practice. The Codes introduced the concept of priority elements, namely, Ownership, Skills Development and Enterprise and Supplier Development. Measured entities are required to meet a sub-minimum of 40% in each of these elements to avoid being discounted by 1 Contributor Level.

MMI proactively revised its Transformation strategy to align with the newly revised codes. The SETC debated and approved the revised Transformation strategy in June 2014. In July 2014, MMI started monitoring and tracking its Employment Equity progress against the revised codes. The analysis against the new codes on Employment Equity, which are aligned to the NEAP target-setting reflects the following:

- An overall 50% black representation at top management level.
- A 25% female representation at top management level, which puts MMI closer to the 30% NEAP target.
- At junior management MMI performs relatively well at 79% black representation relative to the 89% NEAP targets. Metropolitan Retail's sales staff appointments are significantly higher (97%) than the NEAP targets of 89%.

TRAINING

- Training and development of employees remain a key focus for the group.
- In line with our revised Transformation Strategy which is aligned to the Revised Codes of Good Practice, preference is given to black employees for development programmes in general, and black representation for leadership development interventions in particular.
- On the current intake of the Senior Leadership Development Programme (SLDP), the group has invested R503 000 on black talent generally earmarked for succession.

The MMI Talent Management Strategy was approved by the SETC in its March 2014 meeting. The strategy, which covers succession coverage, creation of the group's leadership bench, etc., is aligned to MMI's Employment Equity Plan.

ETHICAL CONDUCT

Group Risk mitigation function representatives report quarterly on formal actions taken in respect of identified transgressions related to internal corruption, commercial crime and unethical behaviour by employees including reporting on Internal Anti-corruption, Anti-commercial crime interventions and related activities. The SETC has comfort that the management of corruption, commercial crime and unethical employee behaviour is effectively dealt with, within the Group.

TREATING CUSTOMERS FAIRLY

The SETC reviewed the quarterly monitoring reports on activities relating to consumer relations. The SETC assumes a high level oversight role on these activities as they are comprehensively monitored at the MMI Fair Practices Committee (FPC). The FPC is mandated by the MMI Board to ensure that the fair treatment of clients is embedded as a core corporate value at all levels within the MMI group.

ENVIRONMENTAL SUSTAINABILITY

MMI adheres to both the letter and the spirit of the principles of King III, the United Nations Global Compact, the United Nations Principles of Responsible Investing and the Code for Responsible Investing in South Africa. The group strives to comply with any other relevant Environmental, Social and Governance (ESG) enactments, and to address all the indicators set out in the Global Reporting Initiative (GRI). MMI has a sustainability policy in place which was approved by the Board. Management representatives provide quarterly reports to the SETC on MMI's sustainability activities.

MMI has been listed on the JSE's Socially Responsible Investment Index, since 2010. The group annually calculates its carbon footprint and participates in the Carbon Disclosure Project (CDP) process. An environmental policy and plan is being developed and will be implemented in the near future.

CORPORATE SOCIAL INVESTMENT (CSI)

The MMI Foundation held its annual strategy session in May 2014. The Foundation's focus areas remain education, health, disability and sports development, and it continues to support flagship projects within these four focus areas. The support of funded projects is executed through the group's two client-facing brands, namely, Metropolitan and Momentum.

CONCLUSION

No significant risks have been identified or arisen during the past year in respect of those functions of the SETC recorded in the regulations and in the committee's Terms of Reference.

Mr S Muller
Chairman: Social, Ethics and Transformation Committee
9 September 2014

Form of proxy

MMI HOLDINGS

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration

Thirteenth annual general meeting (AGM) to be held at 12:00 on Tuesday, 18 November 2014 in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

I, ______________________________ (full name)

of ______________________________

Telephone number (_____) ______________ Cellphone number ______________

E-mail address ______________________________

being the holder of ______________ (number) shares in MMI Holdings Ltd, hereby appoint as my proxy the following person:

______________________________ (full name of proxy holder)

of ______________________________

or, failing him, ______________________________ (full name of proxy holder)

of ______________________________

or failing him, the duly appointed chairman of the meeting, to attend, speak and vote for me and on my behalf at the AGM of the company to be held in Centurion on Tuesday, 18 November 2014 at 12:00, as well as at any adjournment of the said meeting.

Signed at ______________ on this ______________ day of ______________ 2014

SIGNATURE ______________________________

VOTING INSTRUCTIONS

(Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.)

ORDINARY RESOLUTIONS

Nature of resolution		For	Against	Abstain
1	Election of Mr LL von Zeuner			
2.1	Re-election of Mrs F Jakoet			
2.2	Re-election of Mr MJN Njeke			
2.3	Re-election of Prof JD Krige			
2.4	Re-election of Mr V Nkonyeni			
2.5	Re-election of Mr SE Nxasana			
3	Re-appointment of PricewaterhouseCoopers Inc. as external auditors, with Mr AG Taylor as designated audit partner			
	Appointment of Audit Committee			
4.1	Appointment of Mr FJC Truter			
4.2	Appointment of Mr SA Muller			
4.3	Appointment of Mrs F Jakoet			
4.4	Appointment of Mr LL von Zeuner			
5	Non-binding advisory vote on the remuneration policy			
6	Appointment of director or company secretary to implement ordinary and special resolutions			

SPECIAL RESOLUTIONS

Nature of resolution			For	Against	Abstain
1	Approval of directors' remuneration				
	Position				
	Chairperson of the board	R1 213 620			
	Deputy chairperson of the board	R606 840			
	Board member	R436 650			
	Chairperson of audit committee	R364 070			
	Member	R181 480			
	Chairperson of actuarial committee	R302 830			
	Member	R181 480			
	Chairperson of remuneration committee	R302 830			
	Member	R150 860			
	Chairperson of risk, capital and compliance committee	R364 070			
	Member	R181 480			
	Chairperson of social, ethics and transformation committee	R242 720			
	Member	R150 860			
	Chairperson of nominations committee	R181 480			
	Member	R90 740			
	Chairperson of fair practices committee	R242 720			
	Member	R150 860			
	Chairperson of board*	R242 700			
	Member*	R150 800			
	Chairperson of divisional audit panel	R181 480			
	Member	R121 300			
	Ad hoc work (hourly)	R4 250			
2	General approval to provide financial assistance in terms of section 44 of the Companies Act				
3	General approval to provide financial assistance in terms of section 45 of the Companies Act				
4	General approval of share buy-back				

* Boards established for segments and the Product House in terms of the new MMI client-centric model

Notes

1. The directors of the company determined that the record date for the purpose of determining which shareholders of the company are entitled to receive the notice of AGM was Friday, 12 September 2014, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 7 November 2014. Accordingly, only shareholders who are registered in the register of members of the company on Friday, 7 November 2014, will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote will therefore be Friday, 31 October 2014.
2. Proxies must be lodged at the company's transfer secretaries office, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), so as to be received by not later than 12:00 on Friday, 14 November 2014, or must be delivered to the company secretary/Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion by no later than 11:00 on Tuesday, 18 November 2014.
3. In accordance with the provisions of section 58 of the Companies Act, 71 of 2008 (the "Act"), shareholders have the right to be represented by proxy at shareholder meetings. A member may appoint one or more persons of his own choice as his proxy/ies by inserting the name/s of such proxy/ies in the space provided and any such proxy need not be a member of the company. Should this space be left blank, the proxy will be exercised by the chairman of the meeting.
4. If a member does not indicate on this instrument that his proxy is to vote in favour of or against any resolution or resolutions or to abstain from voting, or gives contradictory instructions, or should any further resolution/s or any amendment/s that may be properly put before the annual general meeting be proposed, the proxy shall be entitled to vote as he thinks fit.
5. Subject to the restrictions set out in this form of proxy, a proxy may delegate his/her authority to act on behalf of a member to another person.
6. The appointment of the proxy shall be suspended to the extent that a member chooses to exercise any rights as a member in person. Furthermore, a member may revoke a proxy appointment by:

   6.1 cancelling the form of proxy in writing or making a later inconsistent appointment of a proxy.

   6.2 delivering a copy of the revocation instrument to the proxy and to the company, which revocation will constitute a complete and final cancellation of the proxy's authority to act on behalf of the member with effect from the date stated in the revocation instrument or the date on which it is delivered in terms of paragraph 5 above.
7. Unless the above section is completed for a lesser number of shares, this proxy shall apply to all the ordinary shares registered in the name of the member/s at the date of the AGM or any adjournment thereof.
8. Companies and other corporate bodies are advised to appoint a representative in terms of section 57(5) of the Act, for which purpose a duly certified copy of the resolution appointing such a representative should be lodged with the company's transfer secretaries office, as set out in 2 above.
9. The authority of the person signing a proxy form under a power of attorney must be attached hereto, unless that power of attorney has already been recorded by the company.
10. In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.
11. Please note that the company intends to make provision for shareholders, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so. In this regard, video-conferencing facilities will be made available in the Executive VC Room, Parc du Cap, Mispel Road, Bellville, Cape Town. Should you wish to participate in the AGM electronically, you, or your proxy, are required to confirm your attendance and participation at the Bellville location by delivering written notice to the company, at the address detailed hereunder, by no later than Tuesday, 11 November 2014. The abovementioned facilities will only be made available on the date of the AGM if you have notified the company on/before 11 November 2014 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention, this facility will not be available on the date of the AGM.
12. Any alterations made to this form of proxy must be initialled.

The group company secretary

MMI Holdings Ltd
268 West Avenue
Centurion
0157

www.mmiholdings.com