







MMI HOLDINGS





2016

integrated report

CONTENTS

	INTRODUCTION
2	Our approach to integrated reporting
	ABOUT US
4	At a glance
6	Five-year financial review
6	Areas of strength
7	MMI's group strategy
9	Financial Wellness
15	MMI's operating model
16	How we create value
20	Segmental reviews
28	Awards and recognition
29	Our people
30	Transformation review
32	Social and environmental indicators
34	Stakeholder engagement
	PERFORMANCE
35	Group chief executive officer's overview
38	Executive committee
39	Group finance director's report
44	Risk management report
	GOVERNANCE
46	Chairman's letter to shareholders
48	Board of directors
50	Corporate governance report
63	Report of the Audit Committee

	REMUNERATION
65	Remuneration report
	FINANCIAL STATEMENTS
73	Financial statements
247	Shareholder profile
248	Stock exchange performance
249	Shareholder diary
250	Notice of annual general meeting
256	Report by the Social, Ethics and Transformation Committee
	Form of proxy (attached)
IBC	Administration

NAVIGATIONAL TOOLS



ONLINE



FINANCIAL STATEMENTS



INTEGRATED REPORT

ABOUT MMI

MMI Holdings Limited (MMI), a South African financial services group, listed on the JSE, is committed to a client-centric strategy that is purposefully focused on providing for our clients' needs in order to enhance their lifetime Financial Wellness. We believe Financial Wellness is a continuous process of planning and managing your money so that you can afford your expenses and reach your goals over your lifetime. We use our client-facing brands, mainly Metropolitan, Momentum, Guardrisk and Multiply, as well as MMI's financial services and other capabilities to enhance the Financial Wellness of individual clients, small and medium businesses, large companies, organisations and public enterprises in South Africa, the rest of Africa and selected international countries. MMI has strong capabilities in:

- Long and short-term insurance for individuals and corporates.
- Asset management, property management, investment and savings.
- Healthcare administration and health risk management.
- Client engagement solutions, including Financial Wellness and rewards programmes.



MMI HOLDINGS

OUR APPROACH TO INTEGRATED REPORTING

SCOPE OF THE REPORT

Our 2016 integrated report provides a comprehensive overview of the activities of MMI as well as financial and non-financial performance for the 12 months from 1 July 2015 to 30 June 2016. The report also gives a detailed overview of the group's client-centric operating model, its strategy and all financial and non-financial matters that are considered to be material.

MATERIAL MATTERS

In determining the content to be included in this report, we consider what the impact will be on value creation for our stakeholders over the short, medium and long term. We regard an issue to be material when it impacts our ability to achieve our strategy and developments that will influence an assessment of MMI's performance. We also consider factors that affect the economic growth and social development of the countries we operate in.

MMI regards the following as material to the group:

- The successful execution of the group's client-centric strategy of which the focus areas are:
 - client centricity
 - growth
 - excellence.
- Channel growth across all segments.
- Value creation to unlock Financial Wellness through Client Engagement Solutions.
- Group-wide expense optimisation project.
- Significant progress with geographical diversification into India and the UK.
- Streamlining portfolio in Africa.
- Embed the outcomes-based investment philosophy in the Investment and Savings Centre of Excellence.
- Implementing a turnaround strategy for the group's health administration businesses.
- Drive profitability in Momentum Short-term Insurance.
- Implementing actions to improve underwriting experience.

This is underpinned by our values of accountability, integrity, teamwork, diversity, innovation and excellence.

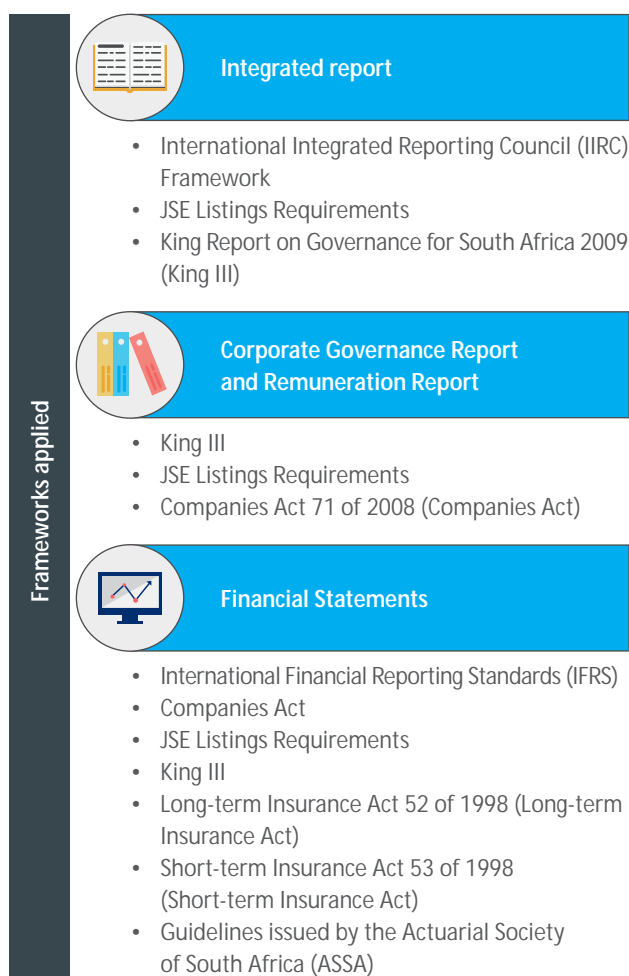
THE CAPITALS

MMI has identified financial capital, intellectual capital, human capital and social capital as imperatives for the successful creation of value for our business and our stakeholders. Although not a major consumer of natural capital, the group acknowledges the role business plays in the protection of natural capital and acts accordingly.

We have not structured the report using the capitals but we have embedded them within the relevant sections of the integrated report.

REPORTING FRAMEWORK

The integrated report has been prepared in accordance with the following key frameworks:



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

ASSURANCE

The non-financial content of this report was prepared by management and approved by the MMI board through its relevant committees. PricewaterhouseCoopers Inc. have audited the consolidated and separate annual financial statements and expressed an unmodified opinion for the year ended 30 June 2016. External assurance of non-financial matters has been limited to our broad-based black economic empowerment (B-BBEE) scorecard, verified by accredited ratings agency NERA, and our carbon footprint, verified by Global Carbon Exchange. Refer to page 30 for our transformation review.



For certificates in respect of our B-BBEE scorecard and our carbon footprint, refer to the MMI website www.mmiholdings.com.



FORWARD-LOOKING STATEMENTS

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 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.

Forward-looking statements apply only as of the date on which they are made, and MMI does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

APPROVAL BY THE MMI BOARD OF DIRECTORS

The board acknowledges its responsibility for ensuring the integrity, objectivity, reliability and transparency of the integrated report. In the opinion of the board the integrated report has been prepared in accordance with the IIRC Framework and addresses the material matters and issues and fairly presents the group's integrated performance.

The Audit Committee of the board has also evaluated the integrated report, prepared from information provided by management and 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

MMI ONLINE

All information contained in our integrated report is published on our website at www.mmiholdings.com. Where information is only available on the website, it will be indicated accordingly.

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 on the website.

Our registered office is situated at:

268 West Avenue,
Centurion,
South Africa
+27 12 671 8911



WWW.MMIHOLDINGS.COM

AT A GLANCE

New business
PVP
↑ 35%
to **R68 billion**

Diluted
CORE HEADLINE EARNINGS
↓ 16%
to **R3.2 billion**

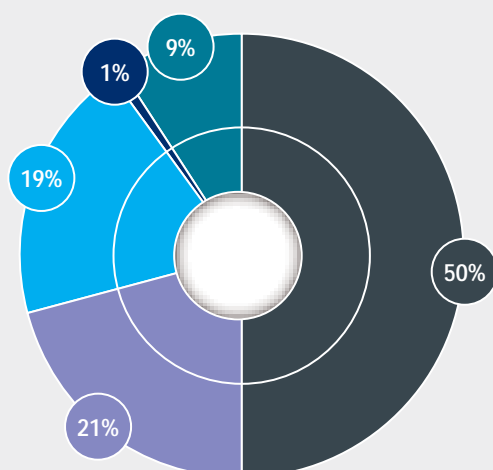
RETURN on
EMBEDDED
VALUE
13%

VALUE of
NEW BUSINESS
R850 million
+13% on
consistent basis

EXPENSE OPTIMISATION
PROJECT
on track

Total
DIVIDEND
increased to
157 cents
per share

DILUTED CORE HEADLINE EARNINGS CONTRIBUTION PER DIVISION AT 30 JUNE 2016



- Momentum Retail
- Metropolitan Retail
- Corporate and Public Sector
- International
- Shareholder capital

CAPITAL MANAGEMENT

	June 2015 Rbn	June 2016 Rbn
Economic capital		
Net asset value as per embedded value statement	16.5	16.9
Qualifying debt	3.3	3.5
Less: net asset value of strategic subsidiaries	(2.0)	(2.7)
Less: required capital	(10.6)	(10.0)
Capital before deployment	7.2	7.7
Deployed	(2.9)	(3.7)
Final dividend	(1.5)	(1.5)
Strategic initiatives	(1.4)	(2.2)
Capital buffer after deployment	4.3	4.0

TRANSFORMATION
LEVEL 2 B-BBEE STATUS



CORPORATE SOCIAL
INVESTMENT SPEND
R33 MILLION

EMPLOYEES

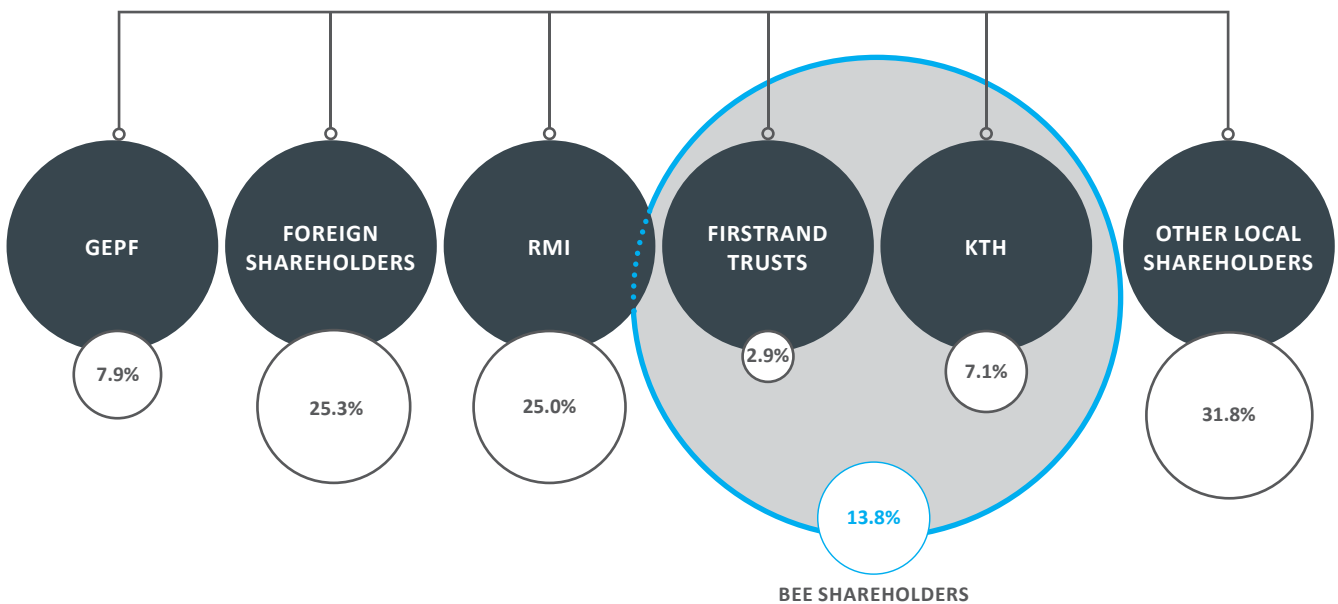


SOUTH AFRICA
14 697



INTERNATIONAL
2 863

SHAREHOLDER STRUCTURE

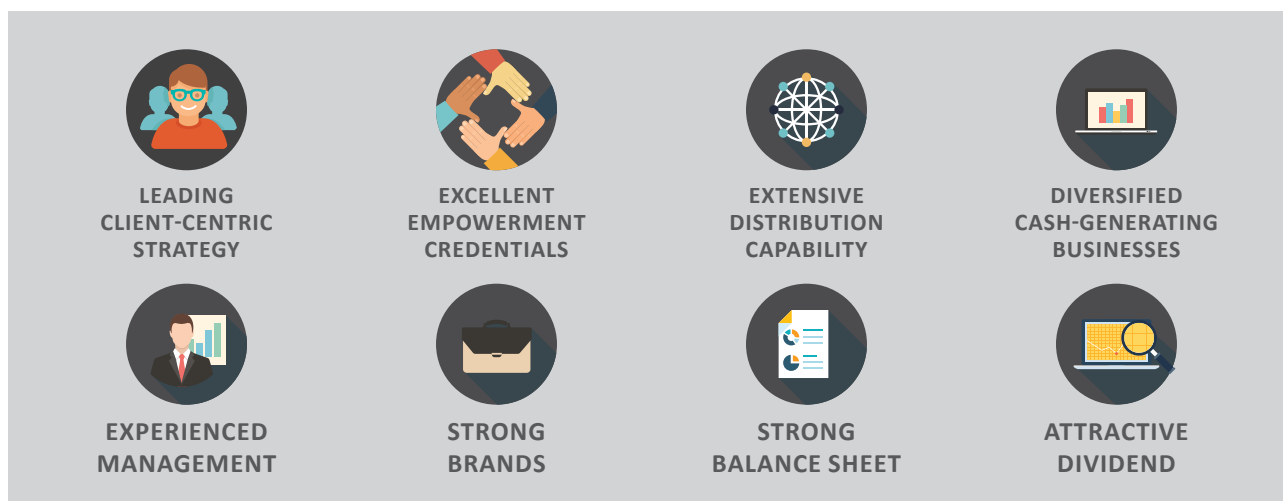


FIVE-YEAR FINANCIAL REVIEW

	June 2016 Rm	Restated June 2015 Rm	Pre client-centric restructure# June 2014 Rm	June 2013 Rm	June 2012 Rm
Net insurance premiums	63 112	65 070	56 242	56 739	45 552
Momentum Retail	25 767	24 676	29 134	35 693	27 809
Metropolitan Retail	6 816	6 910	6 820	6 246	6 042
Corporate and Public Sector	26 608	29 921	17 390	12 265	9 741
International	3 921	3 563	2 898	2 535	1 960
New business premiums (PVP)	68 164	50 396	41 739	35 357	32 053
Momentum Retail	25 950	25 458	20 434	17 421	16 384
Metropolitan Retail	4 936	5 091	4 948	4 674	4 916
Corporate and Public Sector	34 699	17 683	14 491	11 627	9 421
International	2 579	2 164	1 866	1 635	1 332
Value of new business	850	954	779	681	536
Momentum Retail	290	276	240	203	173
Metropolitan Retail	191	185	236	209	199
Corporate and Public Sector	298	427	254	213	130
International	71	66	49	56	34
Diluted core headline earnings	3 206	3 836	3 621	3 241	2 955
Momentum Retail	1 600	1 756	1 569	1 333	1 189
Metropolitan Retail	667	604	587	509	438
Corporate and Public Sector	617	861	687	481	382
International	28	152	122	108	57
Shareholder Capital	294	463	656	810	889
Earnings attributable to owners of the parent (Rm)	2 142	2 857	3 197	2 587	2 301
Dividend per share (cents)	157	155	142	127	113
Diluted embedded value (Rm)	42 989	40 330	39 675	35 148	32 472
Return on embedded value (%) (annualised) – internal rate of return	12.8%	9.6%	19.0%	17.4%	11.3%
Price/diluted core headline earnings ratio	11.3	12.6	11.6	11.0	9.8
Dividend yield % (dividend on listed shares)	6.9%	5.1%	5.4%	5.7%	6.3%
Last sale of period (cents per share)	2 264	3 015	2 625	2 217	1 800

The June 2012 to June 2014 information is not fully comparable following the change to the client-centric model introduced in July 2015. June 2015 figures have been restated.

AREAS OF STRENGTH



INTRODUCTION

MMI's client-centric corporate strategy is centred on its core fundamental purpose to enhance the lifetime Financial Wellness of people, their communities and their businesses.

This strategy aims to generate superior returns through leading client experiences and relational value leadership, in terms of the design, integration and management of holistic solutions to client challenges around becoming and staying financially well throughout their lives.

While we remain committed to being competitive in terms of price and quality of products, the key focus of our strategy is on building deep relationships with clients. This will be achieved by being the most competitive in the high-value part of the value chain, namely the integration of highly effective Financial Wellness solutions.

STRATEGY MAP

MMI's strategy map guides the implementation of our client-centric strategy. We rely on group-wide enablers to support MMI's strategic focus areas and their related strategic objectives. Our strategic objectives represent what we do to achieve MMI's client aspirations and through this to ultimately realise our financial aspirations.

Everything we do is in support of living our purpose to enhance the lifetime Financial Wellness of people, their communities and their businesses. Each component of our strategy map has a corresponding balanced scorecard measurement to track implementation progress.



PURPOSE AND VISION

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses. Closely aligned is MMI's vision for the organisation – to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.



CLIENT ASPIRATIONS

In order to be the preferred lifetime Financial Wellness partner, we aspire for our clients to experience MMI's client-facing brands as:

- Understanding their needs.
- Offering value for money.
- Providing easy-to-use products.
- Designing innovative solutions.
- Reliable and trustworthy.
- Investing in the communities where they operate.



FINANCIAL ASPIRATIONS

The successful achievement of our client aspirations will support the realisation of MMI's financial aspirations. Creating shareholder value is our primary financial aspiration, supported by earnings growth, growth in the value of new business and efficiency improvements. Long-term value creation is measured by MMI's return on embedded value.



STRATEGIC FOCUS AREAS

MMI has three strategic focus areas, Client centricity, Growth and Excellence.



CLIENT CENTRICITY

Client centricity is the strategic focus area that represents MMI's core identity. Our first objective in respect of this focus area is improvement in client experience and relationships both of which are measured regularly and have already shown improvement. A further objective to support client centricity is to increase our clients' Financial Wellness.

Clients who have more insurance products are better equipped to deal with unplanned expenses and are therefore more financially well. Our Multiply wellness and rewards programme will play an important part in this regard. Private Club members of Multiply already have significantly higher cross-product holdings.



GROWTH

Growth remains a critical strategic focus area in the current challenging operating environment. Three strategic objectives underpin this.

1 INCREASE VALUE OF EXISTING CLIENTS

This strategic growth objective is to increase the value of existing clients. Cross-selling, offering additional products and MMI's Multiply and rewards programme are key initiatives to advance this objective.

2 INCREASE CLIENT BASE

MMI's second growth objective is to increase our client base. Strategic initiatives supporting this objective are segment diversification into the middle income segment, channel growth through increased productivity, creating new distribution channels and corporate transactions.

3 GROW THROUGH GEOGRAPHICAL DIVERSIFICATION

MMI's International segment seeks to create value outside of South Africa, with a focus on the rest of Africa, India and the United Kingdom.



EXCELLENCE

MMI's third strategic focus area is Excellence. Our focus is on excellent delivery of the client-centric promises we make to clients, as well as on efficiency in delivery.

ENABLERS

The successful realisation of MMI's client-centric strategy relies on four key enablers.

A world-class data analytics capability that enables the proactive creation of customised and superior client experiences for all our clients.

Flexible and modular systems that take advantage of ongoing technology advances.

A collaborative, client-centric and innovative culture that supports MMI's strategy.

Innovation as a key principle of the way in which we do business.

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses.

MMI's definition of Financial Wellness for a household or individual is the continuous process of financial planning and management with the aim of affording expenses and achieving goals over one's lifetime.

A person or household will be financially well when they plan and manage their money to provide for their current and future financial needs. At MMI, we believe a financially well consumer will contribute to a more resilient economy, which in turn will generate more jobs and improve the ability of more consumers and communities to become financially well.

MMI serves different market segments and the way in which Financial Wellness is explained differs between the different segments. Momentum Retail focuses on the middle and upper income segment and adopts the group's definition of Financial Wellness. In order to measure the Financial Wellness of clients in South Africa, Momentum has teamed up with the University of South Africa (UNISA) to establish the Momentum Household Financial Wellness Index and the Momentum Household Net Wealth Report – the first of its kind in South Africa.

OVERALL FINANCIAL WELLNESS SCORES

The recently released Momentum Unisa Household Financial Wellness Index showed a decline in the Financial Wellness of South African consumers. From a sampling of over 2 500 households through both rural and urban South Africa, the research for 2015 revealed that over 76 out of 100 households are Financially Unwell. This is an increase over 2014 data that indicated that 72 out of 100 households were Financially Unwell. This lower result demonstrates the financial pressures

South African consumers are facing in a slow growing economy that has seen rising inflation, interest rate hikes and high structural unemployment. This is coupled with consumer factors such as low household savings rates, unaffordable debt and low levels of financial literacy.

In the emerging market where Metropolitan Retail operates, the emphasis in terms of Financial Wellness is on being able to achieve life goals. Metropolitan's analogy is that of a coach or mentor, planning and training with the client, encouraging and helping them through difficult times and ultimately celebrating when goals are reached. Metropolitan's latest brand campaign is based on this definition, where we reinforce Metropolitan's position as a mentor for Financial Wellness during all life events.

The advert tells the story of Lester, who like so many of us, has to deal with the financial challenges of life events that cross our paths. He faces the tough decision about taking in his cousin into his family home at a time when they are only just beginning to enjoy financial stability. He experiences the inner conflict between his sense of responsibility to his family on the one hand, and his loyalty to his cousin and childhood friend on the other.

Metropolitan cannot give him the answer on how to manage this life event, but we can help him find a suitable financial solution for his unique situation.



Financial wellness for clients in the Corporate and Public Sector means ensuring the protection, growth and sustainability of their business throughout the business lifecycle. This speaks to the following key aspects:

External factors within a given industry and a specific business	Internal factors
<ul style="list-style-type: none"> • Economic variables • Demographics • Legislative and regulatory 	<ul style="list-style-type: none"> • Income statement optimisation • Balance sheet protection • Enhancing sustainability of the business

To demonstrate MMI's thought leadership in Financial Wellness, Corporate and Public Sector has invested in a number of tools and indices that provide insights into client needs and the drivers of corporate Financial Wellness. In March 2016, we successfully launched the Unisa/MMI Holdings Consumer Financial Vulnerability Index (CFVI), which highlights the perception of consumers, therefore employees, of their own finances and cash flow. The Index measures how vulnerable consumers are feeling with regard to income, expenditure, savings and debt capabilities.

The results of the first quarter of 2016 showed that consumers remain resilient with the quarter scoring 51.3 points compared to 50.9 recorded in the last quarter of 2015. However, overall the CFVI measurement scale shows that consumers continue to perceive their financial situation to be "Mildly Exposed".

MEASUREMENT SCALE OF THE CONSUMER FINANCIAL VULNERABILITY INDEX

Financially secure	80 – 100	Extremely secure	Cash flow position is under control with little threat of becoming <i>financially vulnerable</i>
	60 – 79.9	Very secure	
Financially exposed	50 – 59.9	Mildly exposed	Cash flow affected to such an extent that it creates a high risk of becoming <i>financially vulnerable/insecure</i>
	40 – 49.9	Very exposed	
Financially vulnerable	20 – 39.9	Very vulnerable	Cash flow affected to such an extent that it creates an actual experience or sense of being <i>financially insecure</i> and unable to cope
	0 – 20	Extremely vulnerable	

The change in the index score, as also seen in the Momentum Financial Wellness Index above, was muted due to pressures on consumer's expenditures and their perceived ability to service their existing debts. These insights are important for the Corporate and Public Sector and their clients as there is a connection between financially vulnerable employees and their health, absenteeism and level of productivity.

MMI Holdings has widened its scope in driving Financial Wellness by sponsoring The Directors Event in partnership with the *Sunday Times Top 100 Companies*. Positioned as "SA's biggest board meeting", this dialogue platform aims to harness the collective intellectual energy of members of the private sector, government and civil society in addressing and developing solutions for issues that impact South Africa's financial wellness.

Sunday Times TOP 100 COMPANIES

THE DIRECTORS EVENT

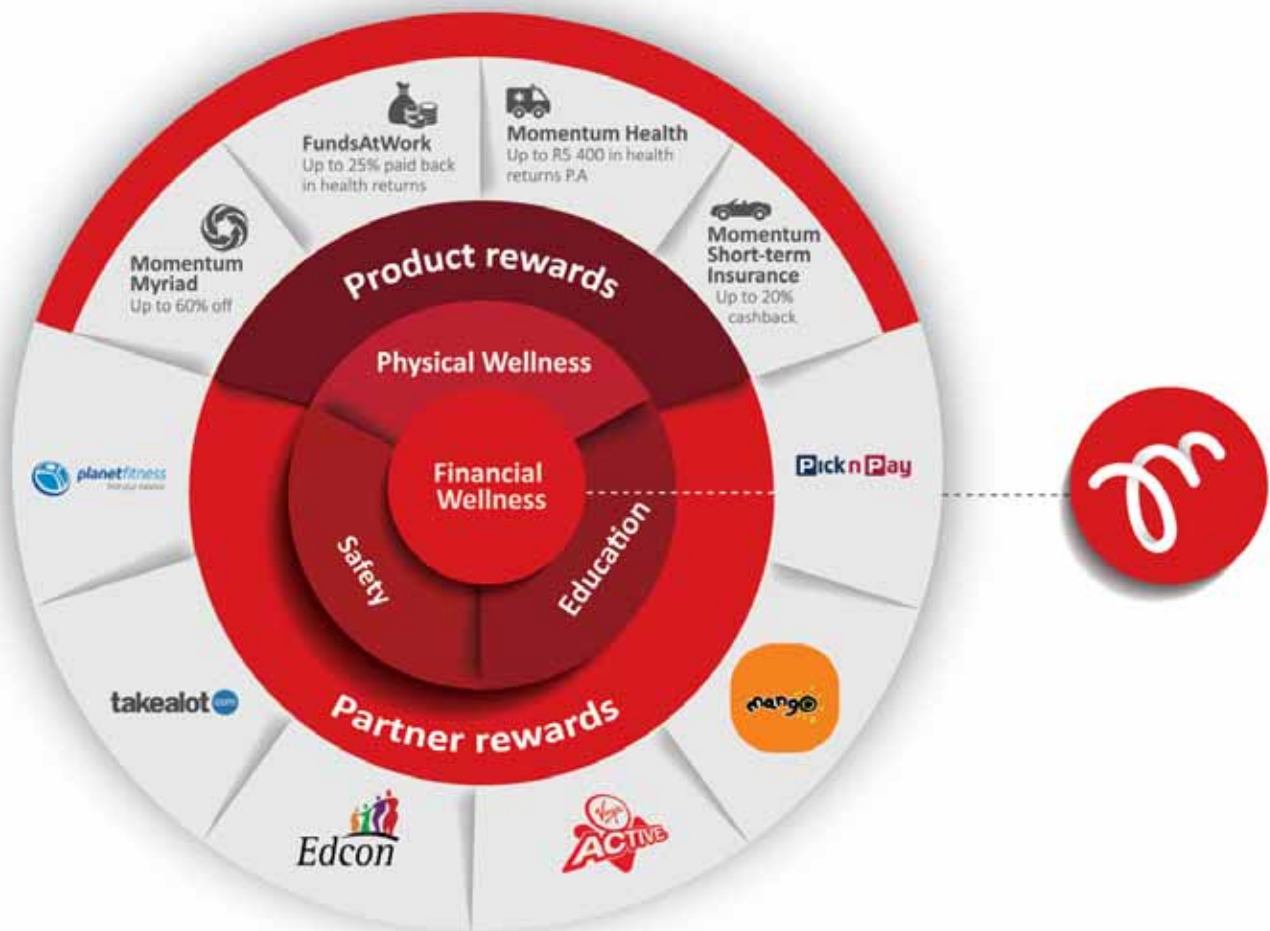
in association with



MMI remains committed to driving Financial Wellness for all its stakeholders internationally and will utilise all insights and capabilities to deliver holistic solutions that will sustainably address all aspects of Financial Wellness.

Unlocking Financial Wellness through *multiply*

In line with our purpose and client-centric strategy, Multiply is our vehicle to unlock Financial Wellness across all MMI's client value propositions. Multiply is a fast-growing and leading wellness and rewards programme that is not limited to physical wellness. This programme aims to educate, engage, empower and encourage our clients to improve multiple dimensions of their wellness, which will ultimately enhance their Financial Wellness. The four dimensions of wellness that Multiply aims to drive positive client behaviour are: Physical Wellness, Education, Safety and Financial Wellness.



Multiply works by educating clients about the benefits of behavioural changes to improve Financial Wellness and encourages them to make changes through appropriate incentives. The client will also be empowered by providing information about their progress towards the right behaviours. The outcome is regular and relevant engagement between MMI and their clients about their Financial Wellness and how we can create value for them.

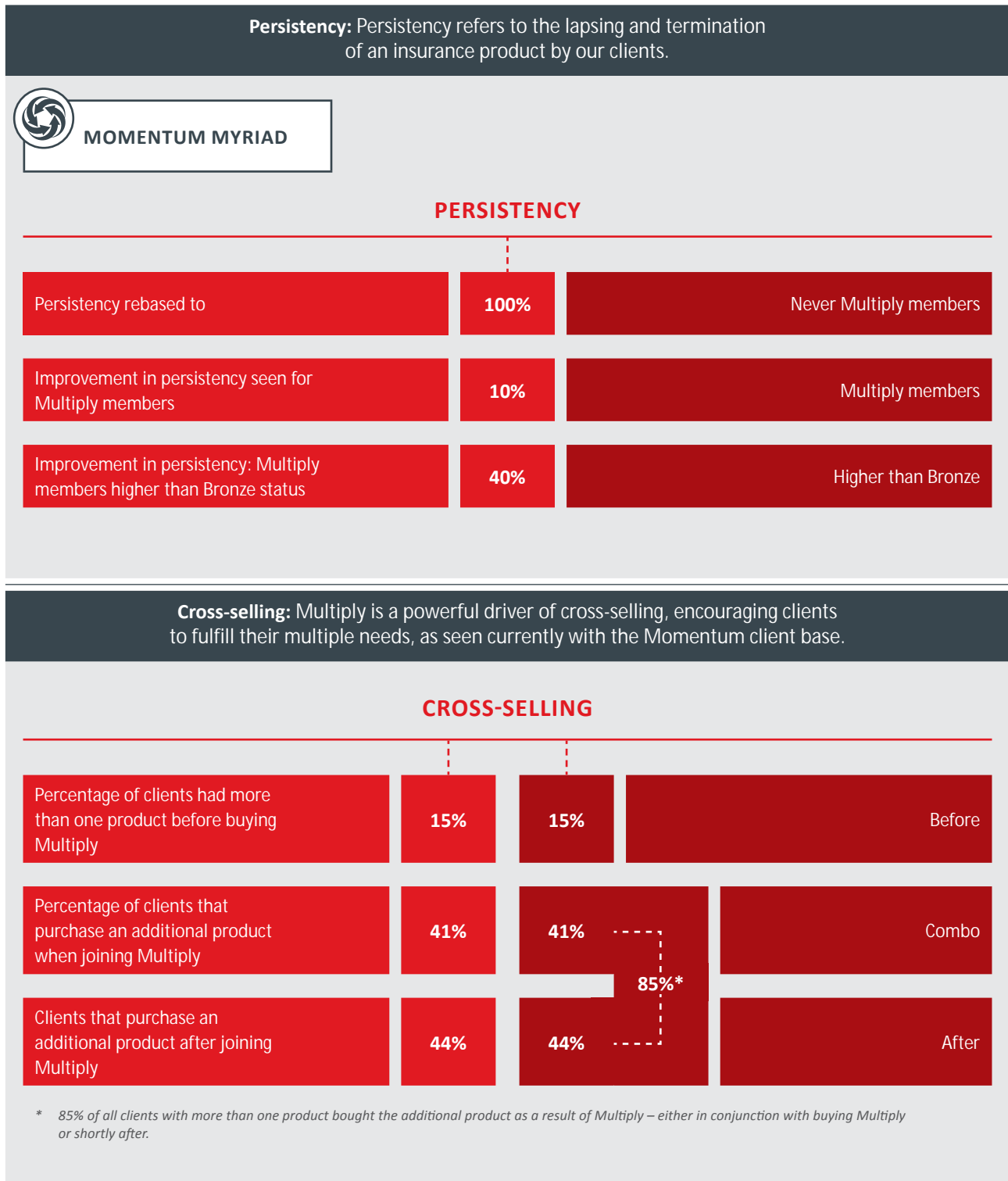
Multiply provides two types of rewards, Product and Partner rewards, to its client base. Clients are rewarded through Product Rewards where significant discounts are offered on our Myriad individual risk product and reductions in short-term insurance premiums based on the client's safety score. Clients who engage in activities that enhance their physical wellness

also benefit from enhanced health savings for their Momentum Health medical scheme and FundsAtWork umbrella retirement fund products.

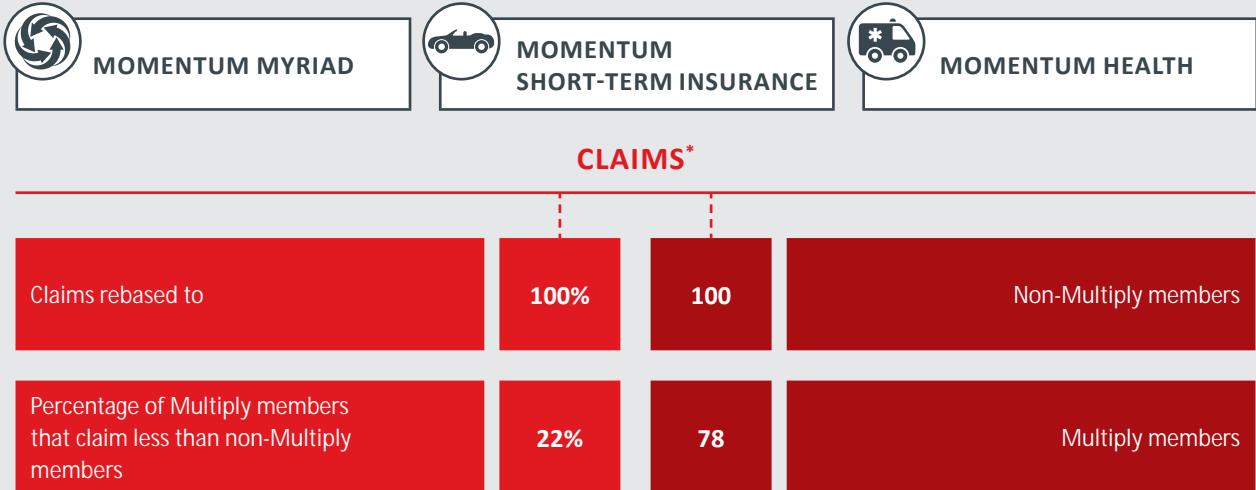
Multiply clients also enjoy additional value in the form of Partner Rewards. The wellness and rewards programme offers discounts on products and services of more than forty well-known lifestyle brands. Clients are offered an opportunity to save money on gym membership, fitness assessments, travel and leisure, online shopping, retailers and many more partners in the Multiply network.

The aim of these compelling rewards is to reinforce positive wellness behaviours, by providing Multiply clients with savings that they can redirect towards further enhancing their own Financial Wellness.

Multiply is also our vehicle for unlocking Financial Wellness for shareholders. This value creation can be seen across specific MMI products, where we have seen improved persistency, increased cross-selling and upselling and improved underwriting experience for Multiply members as seen in the tables below.



Underwriting experience: Momentum clients with Multiply show a reduction in insurance claims for risk, health and short-term insurance than non-Multiply members.



* Claims data aggregated for Health, Myriad and Momentum Short-term Insurance

We are pleased with the strong growth in Multiply sales, indicating the strength of its value proposition. It is encouraging to see that this growth has been significant in our digital and franchise channels, and Momentum Consult (see Momentum Retail segment review on page 20). In future, we anticipate introducing Multiply for our Metropolitan offerings as well as more of our Corporate and Public Sector clients.

INNOVATION

Innovation is one of MMI's strategic enablers, core to our vision and one of our values.

MMIgnite is our socially curated collaborative innovation programme where all employees are encouraged to put forward new ideas to stimulate innovation throughout the organisation.

The MMI Innovation agenda is linked to our *three key strategic focus* areas of client centricity, growth and excellence.

We have mobilised and energised a large proportion of our employees to use the MMIgnite software platform to log their innovation ideas, rank and comment on other employees' ideas. A number of these ideas are already being implemented. It is very encouraging to see the value already being created through our innovation focus, by tapping into the creative minds of each and every employee.

For example, Momentum Retail deploys "nurses in the fast lane" as part of the normal underwriting process who typically interact with clients for 15 to 25 minutes. Through the ideas submitted by employees on the MMIgnite portal, we now equip the nurses with tools that allow them to update client information and gather other data which deepens our insights about the customers we serve and optimises the time spent by our nurses in the fast lane.

We have also developed exciting digital platforms and "gamified" interfaces that will incentivise employees to refer new clients to the business.

Exponential is a newly created business unit of MMI that focuses on transformational innovation opportunities in the Fintech space. We believe the velocity of change of technology advances that has disrupted many industries will also have an impact on financial services. The Exponential business proactively heads off this threat and aims to turn it into an opportunity for growth over the long term.



CLIENT CENTRICITY



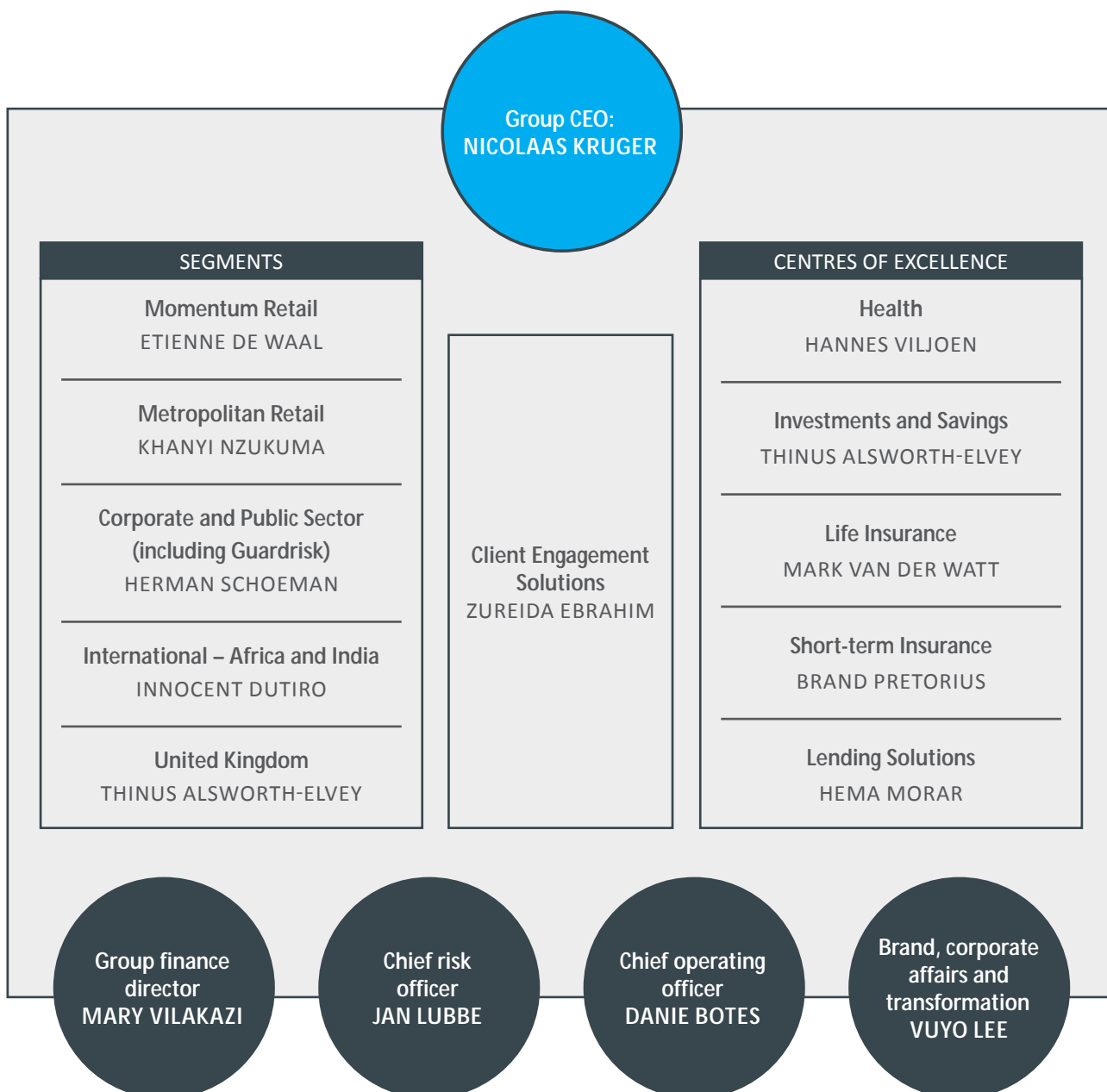
GROWTH



EXCELLENCE

MMI'S OPERATING MODEL

Our operating model has been designed to optimise the execution of MMI's client-centric strategy. Segment and Channel businesses use their intimate understanding of clients to build Financial Wellness client value propositions. The value propositions use client engagement and experience tools designed by the Client Engagement Solutions business, as well as products provided by our Centres of Excellence. Group-wide functions support the operating units. The model lends itself to significant optimisation opportunities, and a number of group-wide optimisation projects support our expense savings target of R750 million by 2019.



HOW WE CREATE VALUE

OUR PURPOSE:

To enhance the lifetime Financial Wellness of people, their communities and their businesses.

HOW OUR BUSINESS WORKS

Segments intimately understand client needs and design matching Financial Wellness solutions.




Momentum Retail	Metropolitan Retail	Corporate and Public Sector	International	
			Africa and India	United Kingdom
Lifetime client value propositions for the middle, upper and high net worth markets.	Needs-based solutions for clients in the emerging and middle income markets.	Providing holistic solutions for the needs of corporates and public sector entities.	Providing solutions to clients in African countries outside of South Africa as well as India.	Focus on investment solutions in the United Kingdom.





Client Engagement Solutions support all segments with solutions design.

Centres of Excellence provide the product building blocks for the client value propositions designed by the segments.

Life insurance and legacy solutions	Short-term insurance	Health	Investments and savings	Lending solutions
Provides life insurance and savings solutions.	Provides asset protection solutions.	Provides health administration, risk management healthcare funding solutions.	Provides outcomes-based investment solutions.	Designs focused lending solutions to enhance Financial Wellness.

DELIVERING FOR OUR STAKEHOLDERS

		OUTCOME	REFERENCE
Shareholders 	Achieving growth in earnings and maintaining stable dividend growth. Grow the embedded value of the company.	<ul style="list-style-type: none"> Total dividend per share of 157 cents Return on embedded value of 13% 	<ul style="list-style-type: none"> Finance director's report page 39 At a glance page 4
Clients 	Providing Financial Wellness.	<ul style="list-style-type: none"> Paid insurance benefits and claims of R26 609 million 	<ul style="list-style-type: none"> Financial statements page 73
Employees 	Providing career opportunities and leadership development. Enhancing employee wellness.	<ul style="list-style-type: none"> 17 560 employees Skills development spend of R183 million Paid employee benefits of R5 341 million 	<ul style="list-style-type: none"> At a glance page 4 Financial statements page 73

		OUTCOME	REFERENCE
Communities 	<p>These programmes are aimed at creating lasting benefits for the communities in which we operate by addressing barriers to Financial Wellness.</p>	<ul style="list-style-type: none"> Corporate social investment spend of R33 million 	<ul style="list-style-type: none"> Social and environmental indicators page 32
Regulators and government 	<p>Compliance with all regulatory requirements and giving industry input to new legislation.</p>	<ul style="list-style-type: none"> B-BBEE Level 2 contribution Paid income tax of R2 164 million 	<ul style="list-style-type: none"> Transformation review page 30 Financial statements page 73
Suppliers 	<p>Dealing fairly and ethically thereby contributing to employment and growth in the economy. Offering enterprise and supplier development funding.</p>	<ul style="list-style-type: none"> B-BBEE Level 2 contribution New B-BBEE trust established to increase enterprise and supplier development contribution 	<ul style="list-style-type: none"> Transformation review page 30
Intermediaries and brokers 	<p>Formal employment with appropriate benefits and career development opportunities. Offering a competitive suite of products.</p>	<ul style="list-style-type: none"> Sales remuneration paid of R5 304 million Training opportunities 	<ul style="list-style-type: none"> Financial statements page 73 Transformation review page 30

MMI GROUP PROFIT DRIVERS

The main determinants underlying MMI's 2016 financial outcomes (earnings and return on embedded value) are set out below. Earnings and value drivers specific to segments and lines of business are covered in more detail under the segmental reviews on pages 20 to 27.

EARNINGS AND/OR VALUE DRIVERS

New business volumes

For business under the life insurance licences, MMI recorded growth of 35% in new business premiums versus the prior year, when measured on a present value of premiums basis (single premiums plus expected future recurring premium income). New business acquired by Guardrisk (cell captive business) made a significant contribution to premium growth over the year.

Year on year, recurring premium life new business increased by 38%, while single premium inflows were 10% lower than the previous financial year.

Short-term insurance premiums increased by 12.8% over the prior year.

Changes made within the Metropolitan Retail distribution channels have started to bear fruit, with improved productivity per agent, a change in the mix of business from savings to more profitable risk business and a recovery in volumes towards the end of F2016.

EARNINGS AND/OR VALUE DRIVERS	
<p>Value of new business (VNB)</p>	<p>Excluding the impact of higher long-term interest rates and expense reallocations from shareholder to client segments, the VNB increased by 13% to R850 million on a consistent basis. The overall new business margin was impacted negatively by a shift to lower-margin business, comprising mainly cell captive administration business.</p>
<p>Persistence (client retention)</p>	<p>Policy terminations in the Momentum Retail segment exhibited a lower loss compared to the prior year, whereas modest termination profits were experienced in the Metropolitan Retail and Corporate and Public Sector segments. We are starting to see better persistency for clients that are members of the Multiply Financial Wellness programme.</p> <p>The focus continues to be on maximising retention and growth opportunities through well-articulated client value propositions and cross selling.</p> <p>Closed scheme health administration business was adversely impacted by the loss of large contracts. The negative impact was partially offset by new administration contracts awarded and by new business growth in the Momentum Health open scheme.</p>
<p>Underwriting, claims management and pricing</p>	<p>Life underwriting results (risk profits) in the retail segments during F2016 were lower than the strong prior year outcome, but still showed a positive variance compared to actuarial assumptions.</p> <p>Disability claims experience on employee benefits business, mainly linked to the current unfavourable economic conditions, was above the targeted range (claims were higher than expected), placing downward pressure on group earnings. A key focus will be to ensure appropriate pricing for this business when renewals become due.</p> <p>Underwriting experience in Momentum Short-term Insurance improved, with the claims ratio improving from 87% in F2015 to 81.8% during F2016.</p> <p>Outside South Africa, non-life underwriting results were adversely affected by worse than expected results from the Cannon Assurance short-term insurance business in Kenya, and the health insurance businesses in Mozambique, Swaziland, Mauritius and Zambia. In Kenya, management changes were made, while a decision was taken to exit group health businesses in certain countries.</p> <p>For the group as a whole, the pressure on underwriting results had a materially adverse impact on earnings growth.</p>

EARNINGS AND/OR VALUE DRIVERS

Expense management

Due to tight management control, expenses for the group as a whole (excluding direct sales costs) remained almost unchanged from F2015. In real terms, this represents a decrease when compared to CPI inflation of approximately 6% over the period.

Regarding the four-year project to reduce annual management expenses by R750 million by F2019, MMI has exceeded its F2016 savings target of R100 million.

The Investments and Savings Centre of Excellence has made good progress in the key projects that will simplify and bring efficiencies in the investment administration processes, including the outsourcing of investment administration functions that support the outcomes-based investment solution.

Progress is being made in consolidating the health businesses across the group and adapting them to the new operating model.

Investment markets, economic conditions and cost of borrowing

MMI's return on embedded value is strongly correlated to investment market conditions – particularly in relation to long-term interest rates (negatively correlated) and equity market returns (positive correlation).

During F2016, investment markets had a mixed impact on the group's financial results, with strong performance in the offshore components of MMI's investment portfolios (mainly due to Rand weakness) partly negating weaker local equity returns. Higher long-term interest rates had an adverse impact on the value of new business.

The slowdown in real economic growth (as measured by lower real GDP growth) had a material effect in a number of areas, including pressure on sales growth and disability claims.

During the year, MMI adjusted its credit asset origination and pricing strategies and the credit portfolio risk management strategy to align with the current macro-economic outlook. No material credit losses were experienced.

Because shareholder assets are conservatively invested primarily in cash or near-cash instruments, investment returns on the shareholder portfolio is not materially exposed to equity markets.

During the year, Moody's assigned an Aaa.za national scale insurance financial strength rating to MMI Group Limited (MMIGL) and an Aa2.za rating to MMIGL's unsecured subordinated notes. This is a positive for future debt roll-over costs.



ETIENNE DE WAAL
Chief executive:
Momentum Retail

MOMENTUM RETAIL

Momentum Retail provides innovative Financial Wellness solutions to the middle, upper and high net worth segments. This is underpinned by appropriate financial planning and advice.

CONTRIBUTION TO GROUP

Core earnings: R1 600m (50%)
Value of new business: R290m (34%)



MOMENTUM RETAIL MODEL

We intimately understand our client needs and expectations

We conduct client research and gain insights through a state-of-the-art consumer behaviour laboratory, coupled with direct feedback from our clients on their experience.

Momentum Retail builds suitable client value propositions to address client needs

- Risk Protection
- Wealth creation
- Savings and Investment
- Short-term insurance
- Multiply

An omni-channel approach, where clients interact through their channel of choice

- 657** Tied financial planners
- 8 000+** Independent financial advisors
- 131** Momentum Consult Franchises
- 78** Digital agents

Momentum Retail aspires to achieve the following client goals

- Financially well clients.
- Superior customer experience.
- Regular client engagement through Multiply.



PROFIT DRIVERS

1 Mix of business

- We continue to grow our market share in the risk category through our market-leading Myriad product.
- In the current tough economic environment, we have seen a shift from recurring savings solutions, however experienced pleasing growth with single premium investments, particularly guaranteed products.

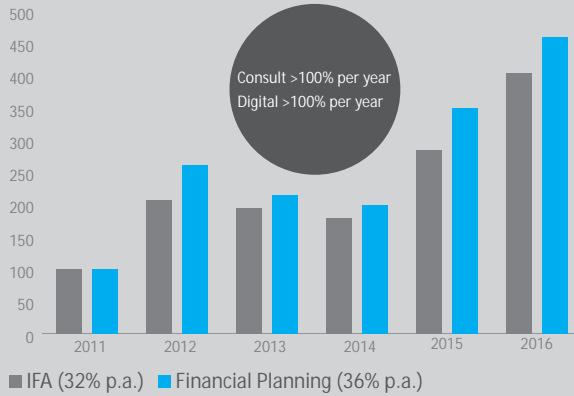
2 Multiply take-up

- Multiply, as our client engagement platform, has enjoyed greater traction, encouraging clients to engage in activities that enhance their Financial Wellness. Advisors have contributed to increased sales to new clients at new business stage.
- Clients who engage with Multiply have significantly higher lifetime client value, longer tenure, and cross-product holding than the average Momentum Retail client.

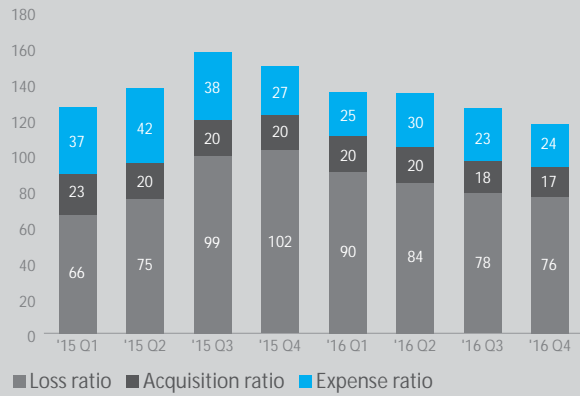
3 Effective underwriting, pricing and claims management

- We are comfortable that underwriting, pricing and claims management are effective as we have seen our underwriting results normalising from a downward trend. Our health morbidity profits remain healthy.
- Our short-term insurance claims ratio has improved materially since April, with enhanced access to data and continued refinements in pricing models.

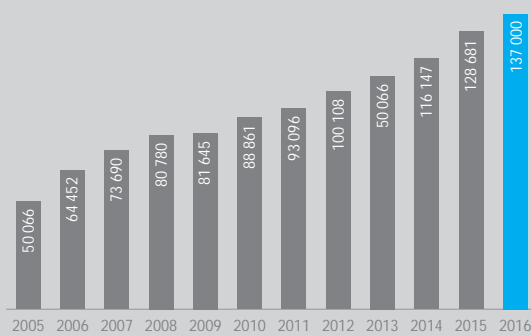
Growth in Multiply sales



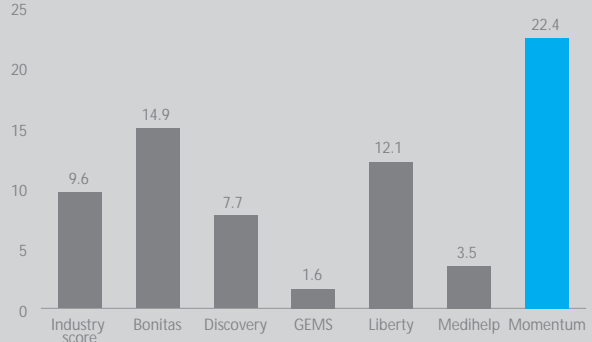
Short-term insurance: Key ratios improving (%)



Momentum Health membership growth



Net promoter score (%)



STRATEGIC INITIATIVES

1 Effectively penetrate the South African Middle Market

2 Build a diversified distribution capability

3 Strengthen wealth management solutions and capabilities

4 Align the client and financial advisor interaction to our client-centric strategy

- Momentum Retail, together with Metropolitan Retail, is in the process of leveraging existing value proposition development and channel capabilities to serve the middle-income market. Momentum Retail's digital channel has proven to be successful accessing the more affluent sub-segment of this market.
- Our distribution capabilities – independent financial advisors, tied agents and Momentum Consult franchise owners – are showing good growth, with increasing support seen from our independent channels.
- Call centres are growing their sales contribution, delivering 50% of Personal Lines short-term insurance new business and 25% of individual health new business.
- In line with international trends, new capabilities will be developed to enable consumers to access information, advice and purchase and receive service on our solutions through mobile and web-based channels.
- Our outcomes-based investment strategy has created an opportunity to develop bespoke investment solutions for clients. This will support increased flows through our tied agency and independent investment advisors. As seen with growth in our guaranteed investment products, we aim to improve support for all our in-house investment solutions.
- Appointed a head of Client and Advisor Interactions and have seen good progress being made in developing the new interaction model for clients and advisors that will ensure consistent and excellent experience across product lines.



KHANYI NZUKUMA
Chief executive:
Metropolitan Retail

METROPOLITAN RETAIL

Metropolitan Retail focuses on the South African emerging and middle market. The segment aims to improve the Financial Wellness of its clients through empowerment and education.

CONTRIBUTION TO GROUP

Core earnings:
R667m (21%)

Value of new business:
R191m (22%)



METROPOLITAN RETAIL MODEL


We have been recognised as a market leader in this segment

Metropolitan has a strong and trusted brand in the emerging and middle markets. The business has a large distribution and service footprint.

Our aim is to address client life goals through cost-effective and simple solutions

-  Funeral insurance
-  Savings
-  Retirement provision
-  Income-generation

The preferred advice and service channels remain face-to-face driven

-  **4 804**
Employed financial advisors
-  **340**
Tele-channel advisors

Metropolitan Retail serves multiple stakeholders and their goals

- Enabling clients to plan and achieve their life goals.
- Advisors to have a meaningful, purpose-driven and progressive career.
- Deliver shareholder value through translating the levers of VNB into channel performance measures.



PROFIT DRIVERS

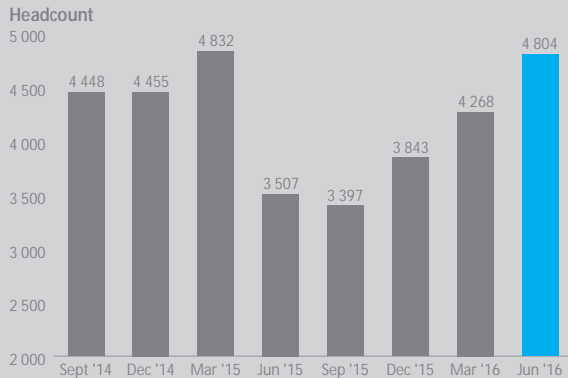
1 Profitable lines of business

2 Agent productivity

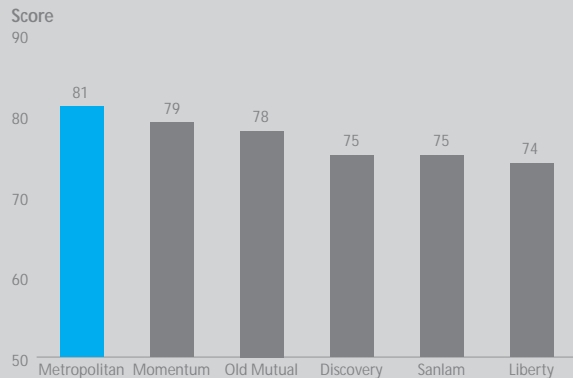
3 Effective operations management

- Our funeral products continue to be well-received and supported by the market.
- Our clients exhibit an increased interest in discretionary and retirement savings, followed by innovative single premium solutions for income needs.
- Over the past 18 months, Metropolitan Retail has embarked on a bold initiative to completely redesign the channel model to align to the client-centric model.
- A 70% improvement was seen in agent productivity with the last quarter of the financial year achieving 27% growth compared to the 2015 fourth quarter.
- Excellent expense management enables Metropolitan Retail to sustainably provide affordable solutions to clients.
- Key measures show improvement in our premium collection rate, indicating our good experience in managing our persistency risk well.
- Through our paperless process and life event management services, we provide a seamless and compassionate claims experience to our clients.

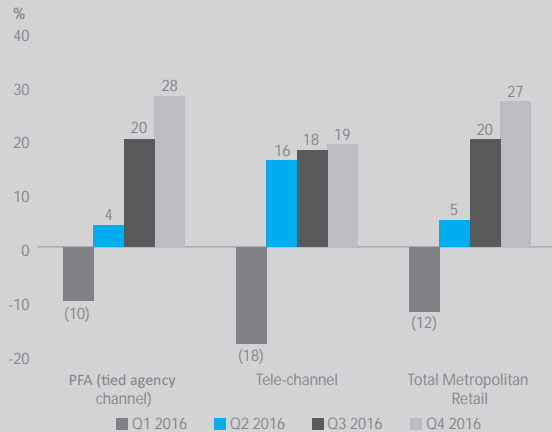
We have bolstered our agency workforce since the change in our remuneration model, with increased productivity.



Our commitment to client centricity is bearing fruit, with Metropolitan being recognised for its client experience.



Quarterly % growth in APE F2016 v F2015



Metropolitan's philosophy is seeing people not policies

What we measured	What we measure now
Policies	People and networks
Premium income	Affordability
Lapses	Obstacles to financial wellness
Cost per transaction	Client experience per transaction



STRATEGIC INITIATIVES

1 New generation client value proposition

2 Channel optimisation

3 Migration from Legacy products

- A new advice methodology has been rolled out that leverages our new channel operating model and ensures advisors engage their clients regularly on updating their financial plan.
- We have plans to provide our client base with access to a wellness and rewards solution, through Multiply Starter.
- Since the redesign of the channel remuneration model, advisor productivity improved by 80% and sales grew by more than 20% since January 2016.
- A similar performance-based remuneration model is being implemented in the call centre to drive productivity.
- Our next focus is on supplementing our engagement solutions through mobile and cellular technologies, thus leveraging on human and digital points of contact in an omni-channel architecture.
- Migration to new generation systems for our products progressed well. In the last half of 2017, we will launch a new generation version for our new products and some of our core products.
- Clients will have the option of selecting whether they require advice or buy on their own through self-help on this omni-channel platform.
- The migration initiative has direct financial benefit for MMI's expense optimisation project target.



HERMAN SCHOEMAN
Chief executive: Corporate and Public Sector and Guardrisk

CORPORATE AND PUBLIC SECTOR

The Corporate and Public Sector segment combines client insights and product and solutions capabilities to design holistic client value propositions for its institutional clients.

CONTRIBUTION TO GROUP

Core earnings: R617m (19%)

Value of new business: R298m (35%)



CORPORATE AND PUBLIC SECTOR MODEL

We segment our institutional clients using multi-dimensional metrics

- Medium to large corporates
- Affinity groups
- Labour unions
- Public Sector institutions

Comprehensive offerings include best practice advice, integrated products and solutions

- Retirement (umbrella and free-standing fund administration)
- Investment and annuity
- Life and short-term insurance
- Alternative asset risk transfer arrangements (eg cell captives)
- Medical scheme benefits and closed scheme administration
- Health and wellness to employers and employees
- Corporate Income Statement and Balance Sheet enhancement

Our growth story is in our Guardrisk business, and we aim to grow our other channels

- Intermediaries
- Affinity (Guardrisk)
- Digital portals (employers, trustees, members, etc)
- Direct engagement including key account management and strategic alliances

We measure our success based on how we impact our clients' Financial Wellness in three areas

- Growing their profitability.
- Protecting their asset base.
- Enhancing their sustainability.

To evaluate our success, we build tools to quantify our performance in improving client Financial Wellness.



PROFIT DRIVERS

1 Affinity business

- Our affinity capabilities have resulted in new business growing at 96% over the prior year for the segment.
- Capitec, Bayport and Homechoice are all clients of MMI and we believe there are further opportunities in this part of the market.
- Guardrisk, our vehicle for affinity, has generated attractive returns for shareholders.

2 Effective underwriting pricing and claims management

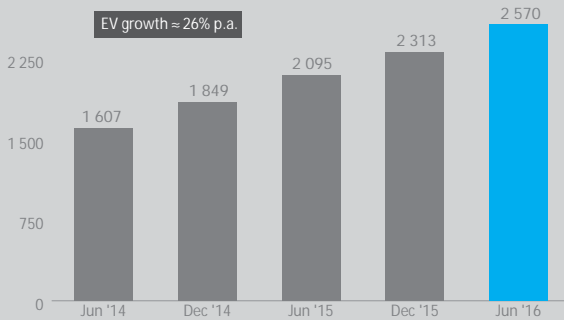
- Our group life and disability products have shown a high correlation to economic conditions.
- The segment's core headline earnings – down 28% compared to the prior year – were affected significantly by a negative group disability underwriting experience.
- To address this loss, we have reviewed premium rates at renewal for loss-making schemes, to bring premiums to a fair level.
- We also continue to upskill assessors and drive improvements in our claims processes.

3 Diversified health business

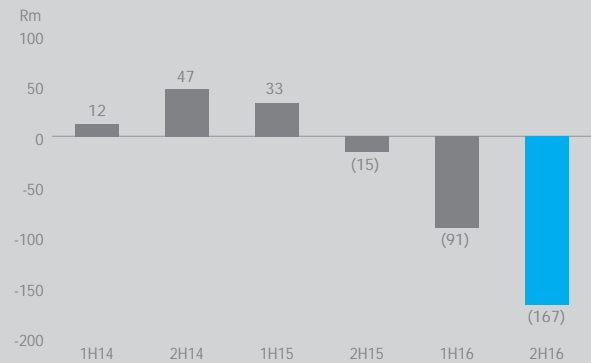
- Our intent to diversify the health business is working well, with good traction in Wellness and Occupational Health.
- MMI's low cost value proposition is the fastest growing and has the highest market share.
- We are repositioning the health administration business closed schemes to improve profitability of the business.

MMI acquired the Guardrisk business in 2014 and has experienced steady growth in embedded value.

Embedded value (Rm)



Our Corporate and Public Sector mortality and morbidity experience follows similar patterns to the industry for 2016.



We deliver our client value proposition through four primary brands



MMI also trades in the health sector using product brands that are well-recognised in the healthcare industry



STRATEGIC INITIATIVES

1 Segmented intermediary model

- We have segmented intermediaries across the broad range of licenses to ensure optimal service levels.
- Through the key account management team, we will deepen industry and sector insights about the institutions that we serve, so we focus on the strategic effect on the Financial Wellness of the organisations and their employees.
- We have implemented a dedicated broker engagement programme.

2 Enhance our client value propositions to drive long-term relationships with clients

- We have developed a number of new customer value propositions for the segments we serve, informed by enhanced insights into client needs.
- Multiply, our client engagement solution, has been effectively embedded into our client base.
- A new digital solution called Workplace Living Services has been piloted to provide interactive services to employees thereby improving the client experience.
- The segment recently launched the Unisa / MMI Holdings Consumer Financial Wellness Index, one of a series of indices/tools we are developing to give clients a better understanding of the drivers of corporate Financial Wellness and productivity.

3 Deliver a consistent and excellent client experience

- We have refined our operating structure and aligned our capabilities to improve execution.
- We commenced with a project to achieve a single client view in order to enhance the client experience.



INNOCENT DUTIURO
Chief executive: International
– Africa and India

INTERNATIONAL

MMI's International business operates in the rest of Africa, India and the United Kingdom. Our global expansion strategy is centred around identifying unmet client needs in certain segments of targeted countries.

CONTRIBUTION TO GROUP

Core earnings:
R28m (1%)

Value of new business:
R71m (8%)



INTERNATIONAL MODEL

MMI operates in 15 countries outside South Africa, accounting for 4% of new business sales

South Region:

Namibia, Botswana, Mozambique, Lesotho and Swaziland

East Region:

Tanzania, Zambia, Kenya and Malawi

West Region:

Nigeria and Ghana

Other:

India and United Kingdom

The segment aims to execute MMI's global expansion strategy through multiple offerings

- Risk, savings and investment solutions
- Retirement Fund administration
- Short-term insurance
- Asset Management
- Health insurance and administration
- Multiply engagement solutions (in India only)

Each country warrants a different distribution model and operating structure

- Tied agents in Kenya and Namibia to drive Retail Life business.
- Large brokerages supporting MMI in driving sales on a Pan-African basis.
- Alternative distribution such as the mobile based insurance joint venture with MTN.
- Financial technology platforms in our UK business – such as MoneyHub – which enables relevant and superior financial advice to independent advisors.



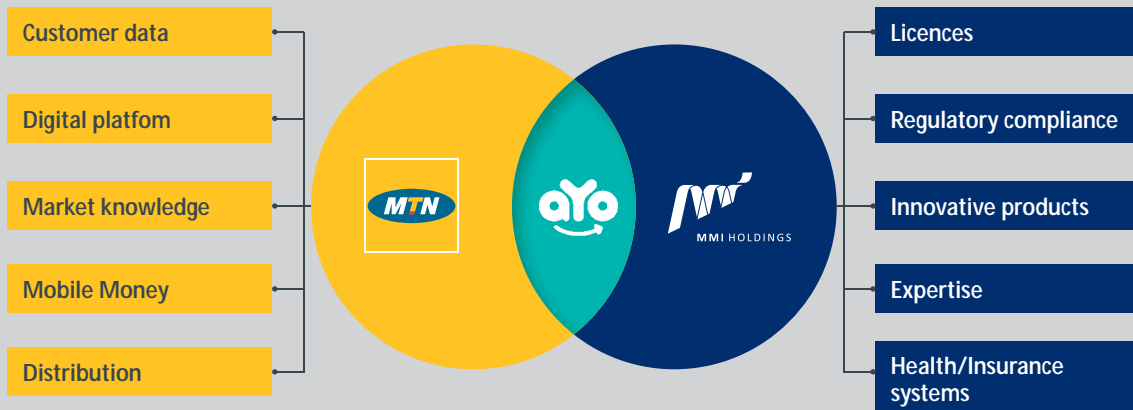
PROFIT DRIVERS

- 1** Stable earnings through our diversification approach
- 2** New business growth volumes
- 3** Performance driven regional structure
- 4** Client retention and claims containment

- The performance of the International business was disappointing with economic factors playing a role in the earnings decline.
- Earnings reduced in Namibia due to new business strain increasing, and we have seen similar trends in the Southern regions except for Botswana.
- Overall the international segment achieved new business growth volumes of 19%, with healthy sales volume growth seen in the life insurance and health insurance businesses in the Southern African Development Community region (SADC).
- Greater capacity and autonomy has been provided to the regional executives in the regions in which we operate.
- We have bolstered our senior executive team in our operating entities in Africa and India to create strategic and operational capacity aligned to our client-centric goals.
- Growth in numbers in health membership was pleasing despite increased competition in some key markets. The negative macro-economic environment has challenged the business' ability to retain existing clients and there has been an increase in claims.

We will be leveraging joint assets with MTN, relying on MTN's digital platform, market knowledge and distribution capabilities, coupled with MMI's product innovation, licences and insurance systems. The joint venture is called aYo.

Leveraging joint assets



STRATEGIC INITIATIVES

- 1** Successfully implement the Indian joint venture
- 2** Scale the East and West African operations through organic growth and selective acquisitions
- 3** Drive regional hub autonomy and foster collaboration

- MMI has made good progress in complying with regulatory requirements and executing the health insurance joint venture with Aditya Birla.
- We aim to combine Aditya Birla's strong brand, distribution and local knowledge with MMI's experience in incentivised Financial Wellness which will position us favourably in the Indian health insurance market.
- A new management team has been recruited to strengthen the talent pool in Kenya and Ghana, creating greater capacity and autonomy within the regions we operate.
- Segmentation work has been completed in Kenya and Nigeria and recommendations incorporated in key strategic initiatives for each country.
- Regional growth forums across southern, eastern and western Africa have been implemented, and countries collaborate across borders on product development, strategy development and solution design.
- A number of significant appointments were made in the operating entities in Africa and Asia. This was done to create strategic and operational capacity much closer to the client in line with the group's objective of being client centric.

AWARDS AND RECOGNITION



MOMENTUM RETAIL

Momentum Retail received three **Assegai Awards** for excellence in Direct Marketing:

- Leader Award of Excellence: Targeted Mobile SMS/MMS
- Bronze Award of Excellence: Email Marketing
- The chief marketing officer at Momentum Digital, Elizabeth Lee Ming was awarded the Direct Marketer of the Year

This business was also rated second in the life insurance sector of the latest **South African Consumer Satisfaction Index**. This recognition confirms our relentless focus on client centricity and improving the Financial Wellness of our clients is making a positive difference.

METROPOLITAN RETAIL

Metropolitan Retail was rated the number one life insurer in the latest **South African Consumer Satisfaction Index**. This recognition confirms our relentless focus on client centricity and improving the Financial Wellness of our clients is making a positive difference.

In the **Sunday Times Top Brands 2016 survey** conducted by TNS, Metropolitan improved its ranking from position six in 2015 to position four in 2016 in the Long-Term Insurance (Consumer Category).

CORPORATE AND PUBLIC SECTOR

The Corporate and Public Sector scooped the **Financial Intermediaries Association of South Africa (FIA) 2016 award** for Product Supplier of the Year in the Employee Benefits category.

They also received the **Imbasa Yegolide Award** for the 2016 Risk Benefit Underwriter of the Year from the Batseta Council of Retirement Funds for South Africa.

INTERNATIONAL

Momentum Global Investment Management was awarded Africa Firm of the Year for 2015 at the **Global PERE Awards**. PERE is the leading publication for the world's private real estate markets.

CLIENT ENGAGEMENT SOLUTIONS

The SchoolTool, which is part of our Education360° initiative, scooped the **Bookmark Award** in the category, "Excellence in Research".

The Bookmark Awards identify and reward excellence in digital creative work and execution, benchmarked against international standards and measurable results.

MMI HOLDINGS

MMI was the winner in the **Media24** competition for financial results reporting in the 2nd quarter of the competition in 2016 – "Category – financial reporting".

BUILDING A UNIFIED MMI CULTURE

At MMI we have a values-based culture that we call our MMI Way and it defines the way we work. We anchor the MMI Way in our purpose of enhancing the lifetime Financial Wellness of people, their communities and their businesses, and we put our clients at the centre of what we do. The MMI Way brings our values of integrity, accountability, teamwork, diversity, innovation and excellence to life through the behaviours we strive for. These behaviours are always defined in the context of our interdependent operating model and in the way we interact with our clients and colleagues.

Although a corporate culture is driven by leadership, it is the actions and interactions of every employee that shape our shared culture.

TALENT MANAGEMENT

We acknowledge that having the right skills and competencies is a competitive advantage in an industry where service excellence is a key differentiator.

We therefore believe in ongoing development of our employees and in creating a platform where learning and skills advancement are prioritised. Furthermore, we also recognise the need for different development strategies to upskill our diverse employee base. Our people development strategies aim to support MMI in meeting our vision and purpose of being client centric. In addition, our people development objectives advance the group's commitment to transformation.

We are currently implementing a group-wide talent management framework, which is aimed at driving consistency in the attraction, selection, development and retention of our employees. Key talent practices such as the use of consistent assessment practices for different levels were enhanced, thereby ensuring that our recruitment processes are based on objective information and are culturally fair.

Through our talent-management strategies, the group drives the retention and deployment of key talent through various recognition and reward programmes. Our reward philosophy is aimed at acknowledging excellent performance and career advancement for our skilled workforce. The group is working on initiatives such as the talent mobility strategy to advance the development of our employees through deployment to short, medium and long-term assignments across the group. The talent mobility strategy also enhances cross-functional and cross-segmental learning opportunities.

LEADERSHIP DEVELOPMENT

Leaders are key to the success of MMI. To achieve success, it is important that we not only have the right people in leadership roles, but that we also constantly develop and grow our leaders. We leverage both internal and external leadership programmes to expand the competencies of our leaders. MMI has a defined and focused approach to leadership development that spans across junior to executive leadership levels. In addition to the group programmes, we run internal leadership programmes specific to our junior management leaders. Those with potential to operate at the MMI executive level are selected to attend our esteemed executive programme.

	30 June 2016
Number of employees	
Indoor staff	10 077
Segments	
Momentum Retail	1 360
Metropolitan Retail	1 215
Corporate and Public Sector	1 019
International	1 295
Centres of Excellence	
Investments and Savings Solutions	511
Legacy Solutions	211
Life Insurance Solutions	487
Health Solutions	2 591
Products and Solutions	2
Short-term Insurance Solutions	283
Multiply	149
Group services divisions	954
Field staff	7 483
Momentum Retail	1 111
Metropolitan Retail	4 804
International	1 568
Total 2016	17 560
Total 2015	17 239

TRANSFORMATION REVIEW

At MMI, we believe that the main catalyst to Financial Wellness is broader economic participation and as such we view broad-based black economic empowerment (B-BBEE) and transformation as intrinsic in achieving growth and Financial Wellness for our clients, staff and the communities we operate in.

Our revised group transformation strategy is mainly focused on key stakeholders both internally (our staff) and externally (our suppliers and our communities). We are pleased to announce the establishment of the Masikhulise ESD Trust that will facilitate our Enterprise and Supplier Development (ESD) initiatives.

We continue to focus on achieving our employment equity (EE) goals and have reconstituted our group and segmental EE forums in line with the amended legislation. In addition, our new EE plan that is aligned to National Economically Active Population (NEAP) targets was approved by the Department of Labour. The new plan is valid from 2016 to 2020. The emphasis going forward will focus on the implementation of our EE plan, which is pivotal to the achievement of our employment equity objectives.

Another significant development in the last year has been our support of Aluwani Capital Partners (ACP), the third largest black-owned asset manager in South Africa. As part of its outcomes-based investment strategy, MMI will partner with asset managers like ACP for the more active, equity-based asset strategies. This demonstrates our commitment to enhanced shareholder value while meeting our strategic transformation objectives at the same time. We are developing our plans to support Black Industrialists once the Revised Financial Sector Charter (FSC) has been finalised and gazetted. Black Industrialists refer to black South Africans who own and, through significant shareholding, control an enterprise whose products are significantly used and have significant impact on decent employment and create broad-based economic opportunities.

Given that B-BBEE and transformation are strategic imperatives, MMI monitors and discusses the progress towards the achievement of its strategic objectives monthly at its group transformation steering committee and MMI Group executive committee meetings, as well as quarterly with the Social, Ethics and Transformation Committee (SETC), a MMI Holdings Limited board committee.

For December 2015, MMI retained its Level 2 Contributor status based on the FSC. The draft revised FSC that is aligned to the Department of Trade and Industry (dti) revised Codes of Good Practice (CoGP) was published on 17 March 2016. We have started a process to assess our compliance and adapt our strategies to align to the revised FSC.

Below we present our last two verified scorecards for comparison purposes. We continue to make progress in various elements of the scorecard. As indicated above, for 2015 MMI retained its Level 2 Contributor status with an overall score of 90.9 points (2014: 91.0).

It is worth noting that the proactive implementation of our revised transformation strategy has mitigated the impact of the implementation of the dti's revised CoGP that are widely expected to decrease the contributor level status of measured entities by an average of two levels. We anticipate the further impact of this will be felt for the 2016 year when many more suppliers will have been verified under the new framework. However, we are confident that our current revised group transformation strategy provides measures to mitigate any negative impacts.

We continue to implement various procurement strategies that include developing suppliers (refer Masikhulise ESD Trust below) and re-directing existing non-compliant procurement spend to black owned, black women owned, small and medium enterprises.

MMI HOLDINGS FSC SCORECARD

Element	Maximum points	2014	2015
Equity ownership	14.0	17.0	17.0
Management control	8.0	8.7	8.3
Employment equity	15.0	9.2	8.8
Skills development	10.0	9.0	9.0
Preferential procurement	16.0	14.5	14.6
Enterprise development	5.0	5.0	5.0
Socio-economic development	3.0	3.0	3.0
Empowerment financing	15.0	13.7	14.4
Access to financial services	14.0	10.9	10.8
Total score	100.0	91.0	90.9
Performance (%)		91.0%	91.0%
B-BBEE rating		Level 2	Level 2

Independent B-BBEE verifications were performed for both of the above periods.

MMI HOLDINGS EMPLOYEE PROFILE (SOUTH AFRICAN OPERATIONS ONLY)

	South Africa								Foreign nationals	Grand total	
	African		Coloured		Indian		White				
	Female	Male	Female	Male	Female	Male	Female	Male			
December 2014	5 267	3 025	1 616	913	657	512	2 068	1 371	50	69	15 548
December 2015	4 614	2 717	1 556	842	649	522	1 967	1 288	66	70	14 291

One of the main focus areas of group transformation and the Social Ethics and Transformation Committee (SETC) of the board is to track, monitor and report on progress towards the achievement of our EE score. We have made this a focal priority for the 2016/17 calendar years. Amongst other initiatives undertaken, it is worth noting that we have formulated a new EE implementation policy and process framework that will play a pivotal role to guide our efforts in achieving our set goals. The new EE implementation policy also clarifies the role of each internal stakeholder eg it holds the group chief executive officer (CEO) and segmental CEO's accountable with the support of the head of human resources and group transformation to achieve our approved EE goals.

MASIKHULISE (TOGETHER WE GROW) ESD TRUST

MMI views Enterprise and Supplier Development as a strategic imperative in achieving its objective of enhancing Financial Wellness for all. The concept of ESD forms part of a global movement towards greater inclusivity in business supply chains.

It is a key element of the dti's revised CoGP, which represent a fundamental change in the approach to economic empowerment in South Africa. The dti's revised CoGP signifies a shift from simple compliance to alignment with the global movement in support of value chain transformation and shared value.

In response to this priority element, MMI has established a new trust, the Masikhulise ESD Trust, which is a ring-fenced Broad Based Ownership Scheme, which houses all our ESD initiatives. The Trust invests in the sustainability of small to medium enterprises, as we believe they play a pivotal role in job creation and economic growth.

MMI fully supports the goals of the National Development Plan (NDP) and has aligned the goals of the Trust to the objectives of the NDP. The vision that guides our ESD strategy is: "We see the creation and growth of sustainable black EMEs¹ and QSEs² in support of Financial Wellness."

¹ Exempted Micro Enterprise – a company with a turnover of less than R10 million per annum.

² Qualifying Small Enterprise – a company with a turnover of more than R10 million but less than R50 million per annum.

The strategy is aimed at sustainable ESD interventions that:

- Support the group's overall revised transformation strategy;
- Support the group's overall broader shared value drive; and
- Accords with the dti's revised CoGP requirements.

This strategy was approved by the group executive in January 2016 and subsequently by the SETC at its February 2016 meeting.

Some of MMI's ESD interventions include the following:

- Provided support to The Business Place Phillipi. This business centre provides entrepreneurial support for start-up businesses in the Cape Flats and Khayelitsha areas.
- MMI launched a supplier development programme which aims to provide business development support (BDS) to suppliers within the MMI supply chain.
- MMI has partnered with the Association of Savings and Investment in South Africa (ASISA), our industry body, through a capital investment into their ESD fund and to roll out our black broker BDS programmes.

MMI acknowledges that the sustainability of the markets in which we operate is dependent on the equitable development of our country and equal access to opportunity for all people. ESD is about empowering suppliers to take charge of their own growth and sustainability. We believe that our investment in these enterprises will play an integral role in socio-economic transformation in South Africa.

SOCIAL AND ENVIRONMENTAL INDICATORS

THE ROLE OF CORPORATE SOCIAL INVESTMENT (CSI)

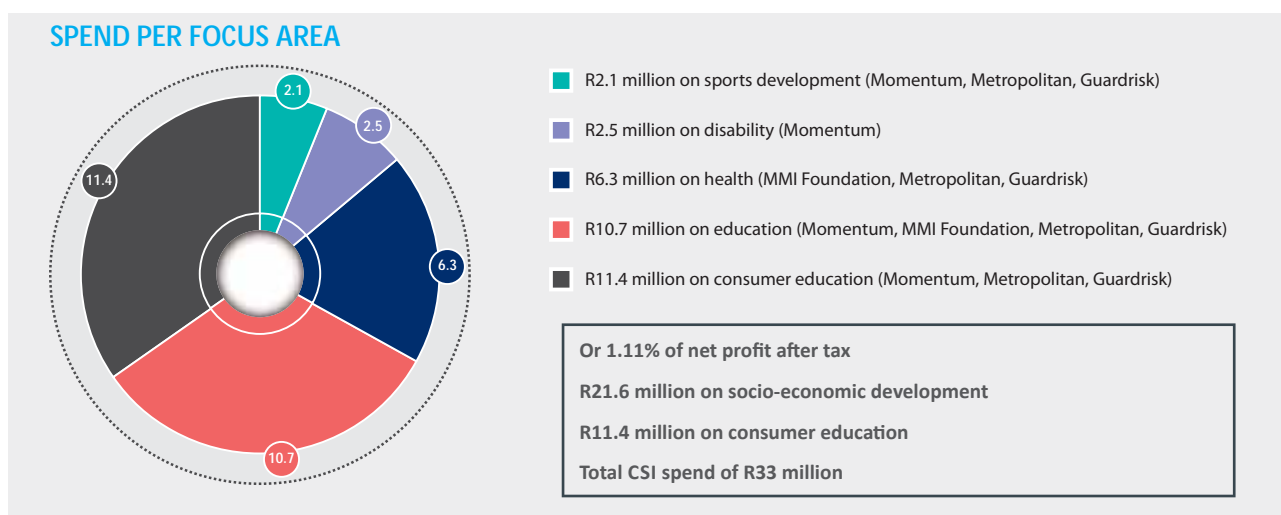
MMI has established the MMI Foundation to provide strategic oversight and governance, as well as play an advisory role for all CSI initiatives. Under its guidance, Metropolitan, Momentum and Guardrisk ensure the distribution of funds allocated to them to address the various social challenges of South Africa.

MMI's CSI programmes are aimed at creating lasting benefits for the communities in which we operate by addressing barriers to their Financial Wellness and empowering them to build better lives for themselves and their families. This is done through initiatives in the areas of sports development, education (including consumer education) disability and health.

Our efforts in consumer education are critical to supporting communities, especially the youth making more informed and effective decisions concerning their financial welfare. Our approach includes face-to-face workshops with non-governmental organisations partners and media-based awareness programmes.

The national presence of the various brands means that MMI's CSI efforts reach into all nine provinces, with some large-scale collaborative projects covering multiple provinces.

MMI operates in a number of countries across the globe through a direct presence, strategic partnerships or joint ventures. In these territories, faced with different challenges, we encourage and support our staff to make meaningful contributions to the communities in which we do business.



For further details on these initiatives, refer to the MMI Foundation website 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. They are the following:

- Metropolitan Mojo road running series.
- Metropolitan: Clash of the Choirs.
- Metropolitan Premier Cup.
- Momentum Unisa Household Financial Wellness Index and the Momentum Household Net Wealth Report.
- Momentum: Cricket South Africa (CSA).
- Momentum and Pick n Pay – a unique partnership.
- Momentum Health Oatwell DualX Series.
- Momentum: Ashleigh Moolman Pasio.

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 Outcome-based Solutions (MOBS) and Momentum Asset Management (MAM) are signatories to the PRI. MOBS and MAM form part of the MMI Investment and Savings Centre of Excellence (ISCoE), which houses the MMI investment business and capabilities. We are celebrating with the PRI, as one of the first signatories from South Africa are proud to have served on two working committees of the PRI since 2009. The companies collaborate with other industry bodies, interested parties, service providers and others on ESG, through engagement, network discussions and various initiatives.

 For further details on these sponsorships, refer to the MMI website www.mmiholdings.com.

During the year, Investment and Savings Centre of Excellence reviewed the responsible investment initiative that sets new goals on an annual basis. Our purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses and therefore we use responsible investment practices to achieve this purpose. Our investment centre of excellence knows that long-term success can only be built through sustainable and responsible investment practices.

The following policies are available:

- Conflict of interest management policy.
- Responsible investment policy.
- Proxy voting guideline policy.

MOBS' and MAM's annual detailed responsible investment activities are reflected on the PRI website (<http://www.unpri.org/signatories>), with each business entity having their own transparency report which is also publicly available to local and international audiences. At a high level, listed below are some of the ESG activities that form an integral part of the ongoing investment and business interests:

- MOBS and MAM consider ESG when:
 - Making investment decisions by evaluating the ESG factors of the companies in which direct investments are made.
 - Selecting investment managers by assessing their ESG practices and policies and considering these where relevant in the investment decision-making process.
 - Investing in properties by focusing on energy efficiency, water demand management and by targeting green star ratings for refurbishments.
- Dedicated analysts are responsible for ESG and quality standard policy development and monitoring.
- A record of voting decisions and a register of ESG engagements is maintained.
- MOBS has integrated ESG further into its investment manager due-diligence process through active engagement, having taken guidance from the PRI.
- MOBS offers a responsible investment portfolio, which is called the Momentum MoM SuperNation Portfolio. This investment portfolio is holistic, comprehensive, Regulation 28 (of the Pensions Fund Act, 24 of 1956) compliant, and is structured to address responsible investment guidelines, while at the same time competing directly, from a risk-adjusted return perspective, with other traditional multi-asset 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.

- MOBS believes in the integration of responsible investment within the investment portfolio offerings and this includes inter alia specific focussed responsible investment building blocks in the company's 'best ideas' Factor Series™ range of portfolios.
- We have been a member of the International Corporate Governance Network (ICGN) since 2013. This investor-led organisation's mission is to promote effective standards of corporate governance and investment stewardship to advance efficient markets and sustainable economies worldwide.
- The company's proxy voting policy is available on request. The proxy voting policy and guidelines are aligned with the Companies Act, PRI, King III, Global Reporting Initiative (GRI) and various global industry association codes.

CARBON FOOTPRINT

MMI participates in the carbon disclosure project annually and our submission is publicly available on the CDP website at 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 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 2014 to 30 June 2015 was 76 524 metric tons. The largest contributor to our carbon footprint was electricity, at 74%. In terms of reducing our carbon emissions, 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.

MMI has established the 2013/2014 financial year as the baseline year on which carbon emission targets have been set. The board has approved a 12% reduction in carbon emissions by 2020. As part of this process, the carbon emissions will be monitored to ensure that appropriate initiatives are implemented in order to meet the set target. The reduction of carbon emissions will be reported annually in the CDP.

For further details on our carbon footprint, refer to the MMI website www.mmiholdings.com



STAKEHOLDER ENGAGEMENT

In both the South African and international economic and political landscapes, the role of stakeholder engagement has been elevated in its importance, and is a critical enabler to driving value for the business in a sustainable manner. With this in context, we at MMI understand that being client centric means listening to the needs and wants of various stakeholder groups and responding to them through development of relevant and appropriate solutions and programmes. Stakeholder engagement is not only about compliance in line with King III principles, but it is a way of connecting MMI to its social partners in business, government and civil society. Through collaboration, the partners can work together to address the issues facing our key stakeholders, including the communities and economies in which we do business.

Our focus at MMI has been towards growing the number of platforms and programmes to enable us to engage with our multiple stakeholders meaningfully and frequently, with the aim of building on the quality of the relationships. The impact of these activities is measured annually through our Stakeholder Relationship Index, which assesses the strength of our relationships at company level as well as individual relationship level. Over the years, the Index has yielded feedback, which has enabled us to evaluate our current strategy and adjust our approach in consultation with our clients, stakeholders and segments with the MMI business.

In 2016, we have built on the achievements of the previous year, including active involvement in programmes that are aligned with our purpose of delivering Financial Wellness.

WORLD ECONOMIC FORUM

In 2015, MMI joined the World Economic Forum as a Regional Associate for Africa. The World Economic Forum is the epitome of public – private partnership with the aim of “improving the state of the works by engaging business, political, academic and other leaders of society to shape global, regional, and industry agendas”. Their mission is aligned with MMI’s values of teamwork and collaboration. In 2016, MMI’s CEO made a commitment to contribute to one of the causes of the World Economic Forum by spearheading the Africa Skills Initiative. Nicolaas Kruger aims to receive pledges from companies in South Africa to train at least 100,000 potential candidates, including youth, to prepare them for the requirements of the financial services industry.

STRATEGIC AND COMMUNITY CONVERSATIONS

Our stakeholder management team held their 10th strategic and community development conversations in 2016. These are engagement platforms targeted at the emerging and middle income market segments. The quarterly sessions take place in different provinces across South Africa with the aim of interacting with representatives from private sector, government and civil society regarding Financial Wellness and how MMI can develop solutions to effectively address stakeholder needs. In addition to educating participants on Financial Wellness, the community sessions simultaneously engage members on matters such as social issues, skills development and corporate social investment.

THE DIRECTORS EVENT

In 2016, we sponsored the second edition of The Directors Event in collaboration with media partner, Times Group. This is a dialogue platform where leaders from government, business and civil society convene to discuss solutions to progress South Africa’s socio-economic landscape. This year, a panel of experts addressed issues that impact the financial wellness of South Africans, namely, South Africa’s global competitiveness, quality of healthcare, access to education and driving entrepreneurship. The insights and solutions will inform our stakeholder engagement plan and the social programmes that MMI will invest in as a responsible corporate citizen.

MMI will continue participating in and driving appropriate and transparent discussions with our stakeholder groups, in a bid to contribute to building a sustainable and reputable Financial Wellness organisation.

ADDITIONAL INFORMATION

For further details on how we engaged with our stakeholders, and their concerns, refer to the MMI website www.mmiholdings.com.





During the past year, MMI implemented the new operating model required to support our client-centric strategy.

The focus of the 2016 World Economic Forum Annual Meeting at Davos was on the Fourth Industrial Revolution. This revolution is defined as the era of cyber-physical systems, where technology advances in the physical, digital and biological spheres are increasingly becoming more connected, fuelling exponential change on a scale we have never seen before, and disrupting entire industries in its wake. I already referred to this phenomenon in my 2015 CEO Overview and MMI's strategy has been aligned to these major global trends long before they became mainstream mega-trends.

We continue to invest in the capabilities we need to succeed in the world envisioned by the fourth industrial revolution. Most importantly, our client-centric purpose to enhance the lifetime Financial Wellness of people, their communities and their businesses compels us to capitalise on the opportunities created through digital advances, big data and data analytics. These capabilities enable MMI to have an in-depth understanding of our clients, build relevant Financial Wellness solutions and ensure superior client relationships in a cost-effective manner. In this way we create shared value for clients, shareholders and all our other stakeholders.

During 2016 the hard work of MMI's people to advance our client-centric strategy by improving clients' experience has started to pay dividends. I am very proud of the achievement of our two main client brands, Metropolitan and Momentum, who were placed first and second respectively in the annual South African Customer Satisfaction Index.

OVERVIEW OF 2016

ENVIRONMENT AND INDUSTRY

There is no doubt that 2016 has been a very challenging year. Political events in South Africa and globally impacted negatively on already weak local and global economies, and investment markets were mostly flat. In South Africa, all key economic indicators painted a picture of a consumer that experiences even more pressure on disposable income than 2015. Business and consumer confidence indices remain at very low levels. The negative environment inevitably had a commensurate impact on the South African insurance industry and MMI.

STRATEGIC FOCUS AREAS

MMI leverages three strategic focus areas to realise our vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness. We define Financial Wellness to be a continuous process to assist people with planning and managing their money so that they can afford their expenses and reach their goals over their lifetime. All strategic activities throughout the entire MMI organisation are aligned to the focus areas of Client-centricity, Growth and Excellence. During 2016, we have made good progress to achieve the strategic objectives in respect of all three our strategic focus areas.

Client centricity

In respect of client centricity we have completed the development of Financial Wellness value propositions for all our South African client segments. We continue to measure the financial wellness of South African citizens through the Momentum Financial Wellness Index (in partnership with UNISA) and our Corporate and Public Sector segment has developed a range of indices to measure the Financial Wellness of their corporate clients.

Multiply is our Wellness and Rewards program that we use to unlock Financial Wellness by educating, empowering, engaging and encouraging clients to better plan and manage their money, and increase their Financial Wellness in this way. In addition to the inherent benefit of enhanced Financial Wellness, MMI's clients saved more than R400 million through Multiply partner rewards and internal MMI product discounts in the 2016 financial year.

By influencing clients' behaviours and enhancing their Financial Wellness, shareholders benefit through a reduction in claims, improved persistency and higher cross-sell ratios. For example, Momentum Retail's overall cross-sell ratio is currently about 1.8, while the average cross-sell ratio for Multiply clients is 3.2 and the top Multiply category (Private Club) has a cross-sell ratio of 5.3.

Growth

Africa, India and the United Kingdom remain the focus of our objective to grow through geographical diversification. We are in the process of focusing our growth efforts in Africa on a smaller number of countries and product lines that have the highest growth potential, and have also strengthened the executive management team of the International segment. In line with global trends in the digital space, we have partnered with MTN in Africa to form a joint venture (JV) that will offer innovative insurance solutions through MTN's significant telco distribution network on the continent. The JV is called "aYo", which means Joy. In India we have received all the requisite regulatory approvals for our Health and Wellness JV with the Aditya Birla Group. We plan to launch this offering towards the end of the 2016 calendar year and are excited about the long-term prospects of this business.

A next important growth objective is to increase the value of our existing clients, primarily by increasing the number of MMI solutions per client, and enhancing clients' Financial Wellness

in the process. In this regard we have made good progress to strengthen our Short-term Insurance and Health Centres of Excellence. Our Multiply Wellness and Rewards program plays an important role to achieve this objective.

MMI's client-centric strategy requires us to follow an omni-channel distribution and client interaction approach. We achieved a number of milestones to strengthen and align all our distribution channels, from face-to-face to digital, and our strong sales growth for 2016 is evidence of our progress towards the strategic objective to increase the number of MMI clients.

Excellence

In my previous CEO overview I referred to the optimisation opportunities created by MMI's new client-centric operating model. During 2016 we made excellent progress towards achieving our objective to improve efficiency. We set ourselves a target to save R750 million in our annual cost base by 2019 and achieved cost savings of R104 million during 2016, slightly ahead of the target for the year.

STRATEGIC ENABLERS

Earlier in this CEO overview I referred to our investment in the critical capabilities that will enable MMI to be successful in the new world of the fourth industrial revolution. During 2016 significant headway has been made in respect of strengthening our four strategic enablers, to build flexible and modular systems, increase data analytics skills, vest a client-centric culture and increase innovation.

In respect of innovation MMI launched its "Exponential Ventures" business during the year. This business invests in innovative young businesses globally, where it is believed they will enhance MMI's competitive position. The specific focus is around connecting with technologically driven start-ups that have the potential to significantly enhance MMI's existing business in win-win partnerships, or hold the potential to transform the life insurance industry by profitably reaching new markets, meeting new needs or leveraging new technologies and business models.

The external innovation strategy has been implemented in a two-pronged fashion, leveraging key strategic partnerships in the London FinTech market and in the domestic South African venture capital scene. Strategic partnerships have been entered into with the highly respected Anthemis Group and 4Di Capital venture capital firms in London and Cape Town, respectively.

FINANCIAL PERFORMANCE

The results of MMI for the financial year ended 30 June 2016 were characterised by weak earnings, but solid performance in the rest of the key financial metrics. The following key themes were observed:

- Strong overall new business volumes, supported by solid retail new business sales and excellent sales growth by Guardrisk.
- Significantly lower than expected underwriting profits, especially in the Corporate and Public Sector, and International segments.
- Muted equity market growth impacting negatively on asset-based fees and discretionary margin releases.
- Continued investment in a number of strategic initiatives that do not yet contribute positively to earnings.
- Very good expense management across the group.
- A good recovery in the return on embedded value (ROEV), most notably through the impact of cost efficiencies and an improved outlook for non-covered businesses.



For further details on the financial performance, refer to the finance director's report on page 39.

TRANSFORMATION

We remain committed to creating sustainable transformation in the South African economy and have maintained our Level 2 Contributor status. Transformation remains a critical building block to achieve our objective of enhancing Financial Wellness for all.

MMI achieved a full score for Enterprise Development (ED) in the 31 December 2015 BEE scorecard. This was achieved via the Aluwani Capital Partners transaction, whereby MMI provided vendor financing for the management buy-out (MBO) by a few key individuals from the old Momentum Asset Management. MMI facilitated this MBO in the spirit of transformation and to complement our new Outcomes-Based Investment philosophy. We are proud to be an industry first in this regard.

LOOKING AHEAD

The current challenging environment for both consumers and businesses is likely to prevail for some time, and the advance of cyber-physical systems will accelerate. In these circumstances, more than ever, I believe MMI's client-centric strategy and investment in capabilities to succeed in the new world are

completely appropriate. Together with our industry peers we will be subject to a tough and uncertain environment. I am convinced that our strategy and MMI's people will ensure that we navigate through this cycle successfully.

THANKS

I would like to thank everyone involved with MMI for their contributions during the year. The past year required on-going commitment and resilience, and our board, management team and employees rose to the occasion. I would also like to thank our shareholders for their support and especially all MMI's clients for partnering with us to enhance their Financial Wellness. We look forward to journey together with all MMI's stakeholders towards a new and exciting world.

NICOLAAS KRUGER

Group chief executive officer

EXECUTIVE COMMITTEE



Nicolaas Kruger (48)
Group chief executive officer
BCom, FFA, FASSA, AMP (Oxford)
 Financial services industry experience:
 25 years



Mary Vilakazi (38)
Group finance director
BCom (Hons), HDip Auditing, CA(SA)
 Financial Services industry experience:
 16 years



Etienne de Waal (48)
Chief executive: Momentum Retail
BCom (Hons), FFA, FASSA
 Financial services industry experience:
 25 years



Khanyi Nzukuma (45)
Chief executive: Metropolitan Retail
BA, MBA, PhD
 Financial services industry experience:
 18 years



Herman Schoeman (53)
Chief executive: Corporate and Public Sector and Guardrisk
BCom, MBA
 Financial services industry experience:
 26 years



Innocent Dutirol (52)
Chief executive: Africa and India
BSc Honours, MSc, MBA
 Financial services industry experience:
 17 years



Thinus Alsworth-Elvey (42)
Chief executive: Investments and Savings. Segment Head: UK Market
BCom, LLB, LLM, H Dip Tax, CFP
 Financial services industry experience:
 20 years



Zureida Ebrahim (39)
Chief executive: Client engagement solutions
BCom, MAP
 Financial services industry experience:
 17 years



Jan Lubbe (45)
Chief risk officer
CA(SA), MBA, MCom
 Financial services industry experience:
 22 years



Danie Botes (52)
Chief operating officer
BCompt (Hons)
 Financial services industry experience:
 31 years



Vuyo Lee (38)
Group executive: Brand, Corporate Affairs and Transformation
BCom (Hons), MAP, MBA
 Financial services industry experience:
 12 years

Group executive ages as at 30 June 2016.



MMI's established businesses were resilient in a market where consumer confidence and spending across the board was negatively impacted by low economic growth and difficult economic conditions.

INTRODUCTION

This review provides a high-level overview of the group results. Additional financial disclosure and segmental details can be found in the group financial statements.

The results of MMI for the financial year ended 30 June 2016 are characterised by weak earnings and strong performance in the rest of the main financial metrics, with the following being the key themes of these results:

- Significantly lower than expected underwriting profits, especially in the Corporate and International businesses.
- Muted equity market growth in the prior year impacting negatively on asset based fees and discretionary margin releases.
- The group's investment in a number of strategic initiatives that do not yet contribute positively to group earnings.
- Actions taken to address the above challenges starting to impact positively on the return on embedded value (ROEV), most notably through the impact of cost efficiencies and an improved outlook for non-covered businesses.

- Good new business volumes overall, with the retail and International businesses generating solid new business growth, and excellent growth in the Corporate business due to Guardrisk securing new sources of business.

GROUP PERFORMANCE SCORECARD

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 includes both short-term and long-term objectives.

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 2016, the following set of short-term deliverables applied to the group as a whole:

PERFORMANCE SCORECARD 2016

	Weight	F2015 target	Actual	Achieved
Return on embedded value	20%	11.6%	12.8%	↑↑
Core headline earnings	20%	10% growth	(16%)	↓↓↓
Value of new business	15%	R905m	R850m	↓
Optimisation and expense savings programme	10%	R100m	R104m	↑↑
Strategic initiatives	35%		on target	↔

The above relates to group-wide targets and deliverables. In addition specific targets are set for individual business units. This report only discusses the financial metrics of the group performance scorecard. The progress on key strategic initiatives is discussed in the group CEO's overview.

The group delivered an excellent ROEV of 12.8% well ahead of the group's targeted growth of Risk Free + 3% (10-year government bond yield at the start of the reporting period plus 3% i.e. 11.6%). Investment variances are included in the ROEV for the Long-Term Incentive Plan to achieve alignment between shareholders and management.

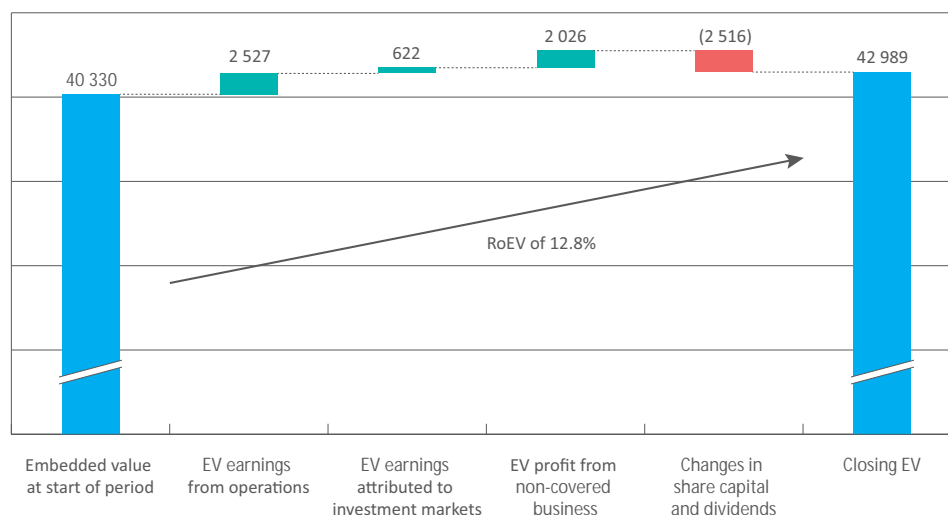
The group secured strong overall new business growth of 35% on a present value of premiums (PVP) basis and 22% on an annual premium equivalent (APE) basis. The value of new business (VNB) declined due to higher interest rates and the allocation of expenses that were previously treated as part of the shareholder segment. On a consistent basis VNB increased by 13% against a target of 15%.

The core headline earnings decline of 16% was disappointing with the main reasons for this being the significantly lower than expected underwriting profits, especially in the Corporate and International businesses as well as the impact of flat equity markets on our asset based fees.

Expense control was very good with the group achieving R104 million against a target of R100 million for the 2016 financial year as part of the cost efficiency programme to take out R750 million of operating expenses by the 2019 financial year. The group also delivered on a number other optimisation initiatives which are not part of the R750 million cost programme.

The group's performance in terms of each of the key financial metrics in the scorecard is discussed below:

RETURN ON EMBEDDED VALUE (ROEV)

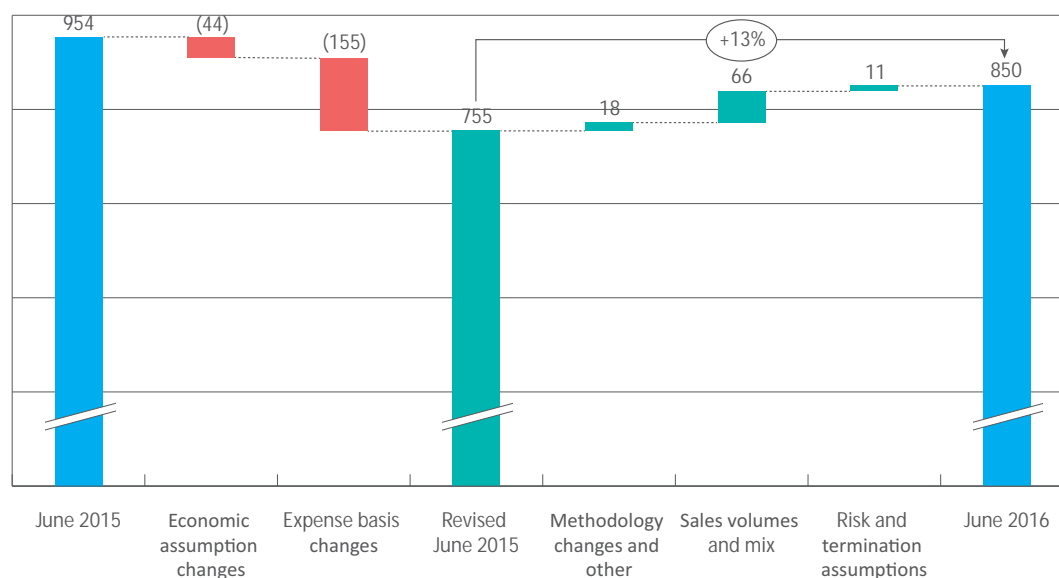


The diluted embedded value of the MMI Group amounts to R42 989 million (R26.80 per share) as at 30 June 2016. Adding back the payment of dividends and other capital movements (R2 516 million) the overall return on embedded value (ROEV) amounts to R5 175 million, an annualised return of 12.8% on the opening embedded value. This is 1.2% above the targeted return on embedded value of Risk Free plus 3%, being 11.6% for the year to 30 June 2016.

Significant items impacting positively on the ROEV include strong operational contributions from Momentum Wealth and Guardrisk as well as taking a less conservative approach to valuing our investment businesses. These items were offset to some extent by poor underwriting results in the Corporate and Public Sector and International Segments as well as the loss of the Polmed health scheme.

VALUE OF NEW BUSINESS (VNB)

The graph below shows an attribution between the VNB of the current and previous financial year:



The overall VNB for the 12 months to June 2016 amounts to R850 million at a PVP margin of 1.2%, compared with a margin of 1.9% for the comparative period. The decline in VNB from the prior year comparative is largely attributed to the negative impact of the increase in interest rates of 60 basis points (R44 million) and the inclusion of additional Holding Company expense allocations to the operating segments (R155 million) in the current year.

On a consistent basis compared with the prior year, VNB increased by 13% from R755 million to R850 million, and the PVP margin would have decreased from approximately 1.5% to 1.2%, mainly due to a change in mix.

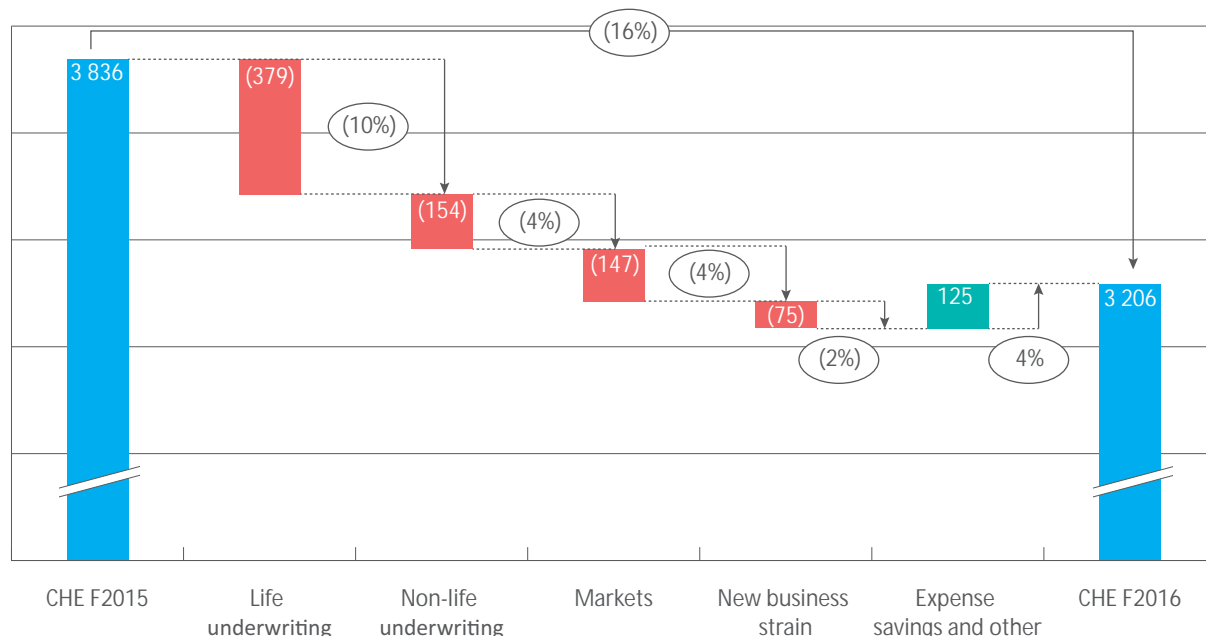
Value of new business per segment

	Restated 30 June 2015 Rm	On a consistent basis 30 June 2015 Rm	30 June 2016 Rm	1 year change	PVP margin
Momentum Retail	276	226	290	28%	1.1%
Metropolitan Retail	185	106	191	80%	3.9%
Corporate and Public Sector	427	360	298	(17%)	0.9%
International	66	63	71	13%	2.8%
Total	954	755	850	13%	
New business margin (PVP)	1.9%	1.5%	1.2%		

The group had pleasing growth in VNB to R850 million in total. The Metropolitan Retail VNB improved significantly on a consistent basis, largely due to the impact of benefit and pricing changes relating to the new sales remuneration model. The Momentum Retail VNB also improved on a consistent basis due to higher volumes of more profitable business sold during the current financial year. Highly competitive market conditions in the current financial year resulted in significant pressure on sales volumes for traditional large corporate business in Corporate and Public Sector. This had an adverse impact on VNB for the segment, but was partly offset by a significant increase in sales volumes for Guardrisk covered business. The International VNB was positively impacted by increased sales in Namibia and Botswana.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

The graph below highlights the significant factors impacting on the decline on core headline earnings.



The core headline earnings for the group for the current year was impacted by weaker underwriting results in the life business in South Africa, poor results from the International Health and Short-term businesses, lacklustre investment market growth and new business strain due to good new business growth in certain businesses. Excellent expense management contributed positively to core earnings over the year.

Higher interest rates and subdued equity markets had an adverse impact on discretionary margin balances and consequently lower releases from these reserves, in line with the approved release profile.

The table below sets out the segmental split of the core earnings.

MMI Group core headline earnings

	12 months to 30 June 2016 Rm	12 months to 30 June 2015 Rm	Change
Momentum Retail	1 600	1 756	(9%)
Metropolitan Retail	667	604	10%
Corporate and Public Sector	617	861	(28%)
International	28	152	(82%)
Operating Divisions	2 912	3 373	(14%)
Shareholder Capital	294	463	(37%)
Total MMI	3 206	3 836	(16%)

Momentum Retail's core headline earnings declined by 9% compared with the prior year largely due to significantly lower mortality experience compared to the prior year which showed excellent experience. It should be noted that mortality experience, largely driven by Myriad, has however recovered from the low levels reported in the first half of the financial year.

Metropolitan Retail's core headline earnings increased by 10%. This is partly attributed to good experience on risk business in the current financial year as well as excellent expense management. The change in the mix of business from savings to more profitable risk also had a positive impact on new business strain relative to the prior year comparative.

The Corporate and Public Sector core headline earnings, which declined by 28% compared to the prior year, was adversely impacted by the significant decline in group risk experience profits in the current financial year. Disability underwriting profits were

particularly disappointing but not unexpected given the poor economic climate and a very competitive market. An increase in disability claims due to stress, strokes and heart attacks, especially among high earners in the Financial Services and IT sectors has been observed in the current financial year. Competition in the market remains fierce especially for large group risk schemes. Consequently an increase in scheme terminations has been observed in the current year. The segment is monitoring this closely, increasing rates where appropriate and premiums are expected to harden over the next 12 months, all which will support more normalised earnings going forward.

International's decrease in core headline earnings is largely due to the worse than expected short-term and health insurance experience in a number of countries. The group has made a decision to focus on a few regional growth areas which will result in the exit of certain business lines and a disposal of some small subscale operations.

The **Shareholder Capital** core headline earnings declined by 37%, mainly as a result of the impact of continued investment in start-up strategic initiatives and an increase in the effective tax rate. The group has taken a decision to narrow its focus on a few growth initiatives going forward, with the key initiatives being Momentum Short-term Insurance, the India joint venture with Aditya Birla, the aYo joint venture with MTN and the MMI Exponential disruptive innovation initiative.

CAPITAL MANAGEMENT

The table below sets out the group's capital position at 30 June 2016:

	Rbn
Net asset value as per embedded value statement	16.9
Qualifying debt	3.5
Less: net asset value of strategic subsidiaries	(2.7)
Less: required capital	(10.0)
Capital before deployment	7.7
Deployed	(3.7)
Final dividend	(1.5)
Strategic initiatives	(2.2)
Capital buffer after deployment	4.0

Group Balance Sheet Management continued with the focus on capital sources, capital efficiency and the validation of the target capital range under SAM during F2016. The results of the investigations indicated that a targeted range of 1.3 to 1.6 times the Solvency Capital Ratio (SCR) for MMI Holdings would be appropriate and in line with the stated capital at risk appetite.

At 30 June 2016, the solvency position of MMI Holdings remained very strong with a capital buffer of R4 billion after allowing for deployment for strategic initiatives.

DIVIDEND

Despite the reduction in earnings during the year, the strong capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity, supports MMI's ability to declare a dividend that is marginally higher than the prior year. The total dividend for the year amounts to 157 cents per share, an increase of 1% over the prior year dividend of 155 cents per share.

The group remains committed to maintaining a good dividend pay-out ratio in light of the strong capital position and future growth prospects, evidenced by the willingness to drop the current year dividend cover to below the targeted dividend cover ratio of between 1.5 and 1.7 times.

The table below shows the group's dividend declarations over the last few years.

Dividend per share (cents)

	2016	2015	2014	Change
Interim ordinary dividend	65	63	57	3%
Final ordinary dividend	92	92	85	0%
Total ordinary dividend	157	155	142	1%
Special dividend			50	

CONCLUSION

The group experienced very tough operating conditions over the past year that manifested in lower than expected earnings. Despite the challenging conditions the group was able to secure strong new business flows while keeping a strong control over expense growth.

The group has done well in showing progress on a number of key growth initiatives that will strengthen our traditional core business, which is important for the future sustainability of the group.

However, tough operating conditions are likely to persist and revenue is likely to remain under pressure for the foreseeable future.



MARY VILAKAZI
Group finance director

RISK MANAGEMENT REPORT

INTRODUCTION

MMI's risk philosophy recognises that managing risk is an integral part of generating 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 for assuming 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 responsibility to all stakeholders.

MANAGEMENT AND THE BOARD

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, and 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 segments, centres of excellence and group-wide functions.

The chief risk officer (CRO) of MMI is the head of the risk function in the business and is supported by individual risk type heads, segmental risk management teams and their CROs. The head of the actuarial function provides assurance to the board on the accuracy of calculations and appropriateness, of the assumptions underlying the technical provisions and capital requirements, both from a regulatory and economic balance sheet perspective.

RISK APPETITE

MMI's risk appetite is formulated by the group executive committee and approved by the Board Risk, Capital and Compliance Committee, and expresses the level and type of risk which MMI is prepared to seek, accept or tolerate in pursuit of its strategic objectives.

The risk appetite includes quantitative boundaries on risk exposure and the group's economic capital requirements, supported by a detailed risk strategy. The risk strategy, which is also approved by the Board Risk, Capital and Compliance Committee, provides a qualitative specification of MMI's appetite for exposure to the different types and sources of risk.

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. MMI's appetite for exposure to the different types and sources of risk is aligned with the strategic vision of MMI to be the preferred lifetime Financial Wellness partner of our clients, with a reputation for innovation and trustworthiness.

RISK TAXONOMY



BUSINESS AND STRATEGIC RISK

Business and strategic risks for MMI are risks that can adversely affect the fulfilment of business and strategic objectives to the extent that the viability of a business is compromised. This includes reputational risks and the impact of the macroeconomic and business operating environment.



LIFE INSURANCE RISK

Life insurance risk for MMI is the risk that future claims and expenses will cause an adverse change in the value of long-term life insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. It therefore relates to the following risk exposures: mortality, morbidity/disability, retrenchment, longevity, life catastrophes, lapse and persistency, expenses and business volumes.



NON-LIFE INSURANCE RISK

For short-term insurance, it is defined as the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following twelve months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines. It covers premium, reserve, lapse and catastrophe risk exposures.



CREDIT RISK

Credit risk for MMI is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment activities but also non-investment activities, for example reinsurance credit risk, amounts due from intermediaries, policy loans and script lending. MMI accepts credit risk on behalf of its policyholders and shareholders.



MARKET RISK

Market risk for MMI is defined as the risk of losses arising from adverse movements in the level and/or volatility of financial market prices and rates. This includes exposure to equities, interest rates, credit spreads, property, price inflation and currencies.



LIQUIDITY RISK

Liquidity risk for MMI is the risk that, though solvent, the organisation has inadequate cash resources to meet its financial obligations when due, or MMI can only secure these resources at excessive cost. MMI differentiates between funding liquidity risk (the risk of losses arising from difficulty in raising funding to meet obligations when they become due) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth or market disruptions).



OPERATIONAL RISK

Operational risk for MMI is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.



COMPLIANCE RISK

Compliance risk for MMI is the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the entity may suffer as a result of its failure to comply with legislation, regulation, rules, related self-regulatory organisation standards or codes of conduct applicable to the activities of the entity.

For further detail on MMI's risk management, refer to page 173 and the MMI website www.mmiholdings.com.





MMI will continue in its resolve to improve client relationships, which I believe will support the realisation of its financial aspirations.

DEAR SHAREHOLDER

At MMI, like any other enterprise, our clients are core to our existence as a financial services business. During the past year MMI's management and employees focused their efforts on the implementation of our client-centric strategy. This integrated report provides you with an overview of the progress we have made to achieve MMI's client-centric vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.

I am particularly encouraged by our progress in the journey of creating a superior client experience. For example, MMI's two main client facing brands, Metropolitan and Momentum, were recently ranked first and second in the 2016 South African Customer Satisfaction Index. We will continue in our resolve to improve client relationships, which I believe will support the realisation of its financial aspirations.

In my previous letter to you I shared my expectation that the insurance industry of tomorrow will look meaningfully different to what we experience today. During 2016 we continued with our journey to position MMI as a strong and sustainable player in such a new world. We created Exponential Ventures and partnered with leading Fintech players to secure optionality in respect of MMI's long-term future. We also continue to invest in our core strategic growth initiatives, which will in time contribute to our sustainability.

The operating environment in most of the markets in which we operate remains tough. A number of factors impacted negatively on MMI's earnings during the year, including low underwriting profits. New business volumes were however satisfactory and our return on embedded value confirmed attractive value creation by MMI in 2016.

CORPORATE CITIZENSHIP

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses. This purpose is not only about creating value for our clients, but also for the communities where they live and where we operate. MMI's corporate social investment is aimed at creating meaningful and lasting benefits for the communities in which we operate – empowering and assisting them to build better lives for themselves and their families. As such, we invest in projects that improve their social and financial circumstances, focusing specifically on education, health and disability.

During the past year our country faced many challenges. In my 2015 letter I referred to South Africa's fiscal and external funding vulnerabilities, which are now becoming significantly more pronounced in the light of the risk of a potential downgrade of the country's credit rating to sub-investment status. Economic growth has essentially come to a standstill

and the South African Reserve Bank predicted 0% growth for 2016 in their Monetary Policy Committee statement in July 2016. Consumer and Business confidence are at low levels, the disposable income of consumers remains under pressure in an environment where inflation is expected to increase and unemployment remains stubbornly high.

In this challenging environment South Africa is, as so often in the past, demonstrating remarkable resilience. MMI remains committed to contribute to broad-based value creation for all citizens and will continue to contribute to the collaborative efforts between government, business and labour.

MMI BOARD

During the year Leon Crouse retired from the MMI Board. I would like to thank Leon for the valuable role he played on our board. Peter Cooper was appointed to the board during the year, with Voyt Krzychylkiewicz as his alternate. Peter and Voyt both have extensive and broad experience in the financial services industry. I welcome them to the MMI Board and look forward to their valuable contributions.

PROSPECTS

We expect the operating environment to remain tough in the short to medium term. Consumers will remain under

pressure, but I believe MMI's client-centric strategy to gain an in-depth understanding of clients' unique needs and providing relevant Financial Wellness solutions is very relevant in these tough conditions. I therefore look forward to the further implementation of our solutions to enhance clients' Financial Wellness and create value for all stakeholders.

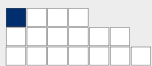
THANKS

In closing, I would like to express my gratitude to all MMI's stakeholders. To our clients, thank you for the opportunity to live our purpose and enhance your Financial Wellness. To the shareholders, we are grateful that you have trusted us with your investments, and to the MMI board, your guidance remains invaluable. To MMI's executive management and employees, I deeply value your continued commitment to achieve MMI's vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.



JJ NJEKE
Chairman

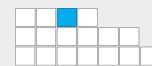
BOARD OF DIRECTORS



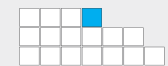
JJ Njeke (57)
Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax
 Appointed to board: 2010



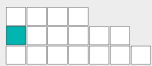
Johan Burger (57)
Deputy chairman
Non-executive, independent
BCom (Hons), CA(SA)
 Appointed to board: 2010



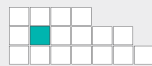
Nicolaas Kruger (48)
Group chief executive officer
Executive
BCom, FFA, FASSA, AMP (Oxford)
 Appointed to board: 2010



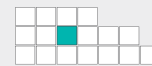
Mary Vilakazi (38)
Group finance director
Executive
BCom (Hons), HDip Auditing, CA(SA)
 Appointed to board: 1 July 2015



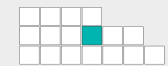
Peter Cooper (60)
Non-executive, non-independent
CA(SA), BCom (Hons), HDip Tax Law
 Appointed to board: 2015



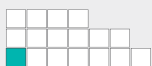
Fatima Jakoet (55)
Non-executive, independent
BSc, CTA, CA(SA)
 Appointed to board: 2010



Niel Krige (67)
Non-executive, independent
MCom, FIA (London), AMP (Harvard)
 Appointed to board: 2011



Jabu Moleketi (59)
Non-executive, independent
AMP (Harvard), MSc in financial economics (University of London), postgraduate diploma in economic principles (University of London)
 Appointed to board: 2010



Khehla Shubane (60)
Non-executive, independent
BA (Hons), MBA
 Appointed to board: 2010



Frans Truter (60)
Non-executive, independent
BCom (Hons), CA(SA), AMP (Oxford)
 Appointed to board: 2010



Ben van der Ross (69)
Non-executive, independent
Dip Law (UCT)
 Appointed to board: 2010



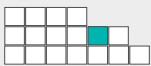
Johan van Reenen (61)
Non-executive, independent
BSc (Hons), MBA
 Appointed to board: 2010



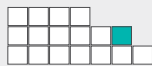
For abbreviated curricula vitae of directors, refer to the MMI website www.mmiholdings.com.

All directors appointed on the MMI Holdings board, at the time of the merger, were taken to be appointed to the board with effect from 1 December 2010, being 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 2016.



Syd Muller (67)
Non-executive, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)
 Appointed to board: 2010



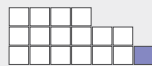
Vuyisa Nkonyeni (46)
Non-executive, non-independent
BSc (Hons), CA(SA)
 Appointed to board: 2011



Louis von Zeuner (55)
Non-executive, independent
BEcon
 Appointed to board: 2014



Voyt Krzychylkiewicz (36)
Non-executive, non-independent (alternate to Peter Cooper)
B Com (Hons) Accounting, CA(SA), CFA Charterholder
 Appointed to board: 2016



Maliga Chetty (46)
Company secretary
BA, BProc, LL.M, CIS
 Appointed: 2013

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 put the best processes in place to implement principles of good corporate governance and 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 to provide comfort that its key risks, processes and controls are functioning as intended. Combined assurance integrates and co-ordinates the activities of the assurance providers, whose functions include risk management, compliance, actuarial, internal audit and external audit. For further detail on the MMI governance model, refer to the MMI governance framework on the MMI website www.mmiholdings.com.

ASSESSMENT OF KING III PRINCIPLES

The assessment of the application and implementation of King III is ongoing. 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.

For a table disclosing all the principles of King III, and how each has been applied, refer to the MMI website www.mmiholdings.com.

ROLE OF THE BOARD

The MMI board is the custodian of the group's corporate governance, acts in the best interests of MMI and its stakeholders at all times and takes ultimate responsibility for MMI. The board is duly mandated in terms of its board charter, which includes details such as the roles and responsibilities of the board, its directors and the composition of the board. The board committees are mandated in terms of their respective Terms of Reference which sets out its purpose, composition and duties. The MMI board charter is reviewed on a regular basis and is in line with best corporate governance principles.



For the board charter and the board committees' terms of reference, refer to the MMI website www.mmiholdings.com.

The MMI board is supported by the board committees depicted in the organogram. These committees have delegated responsibility to assist in matters as defined in their respective terms of reference. These committees report to the MMI board on a quarterly basis and also to other relevant boards, committees and forums from time to time. The MMI board approves the delegated responsibility and the powers, limits and authorities applicable to each board committee.

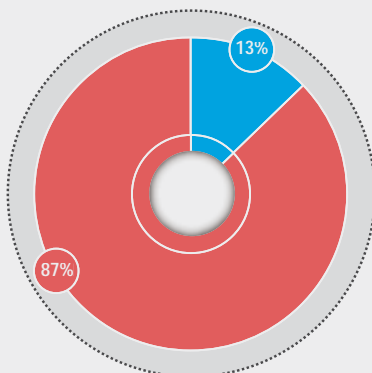
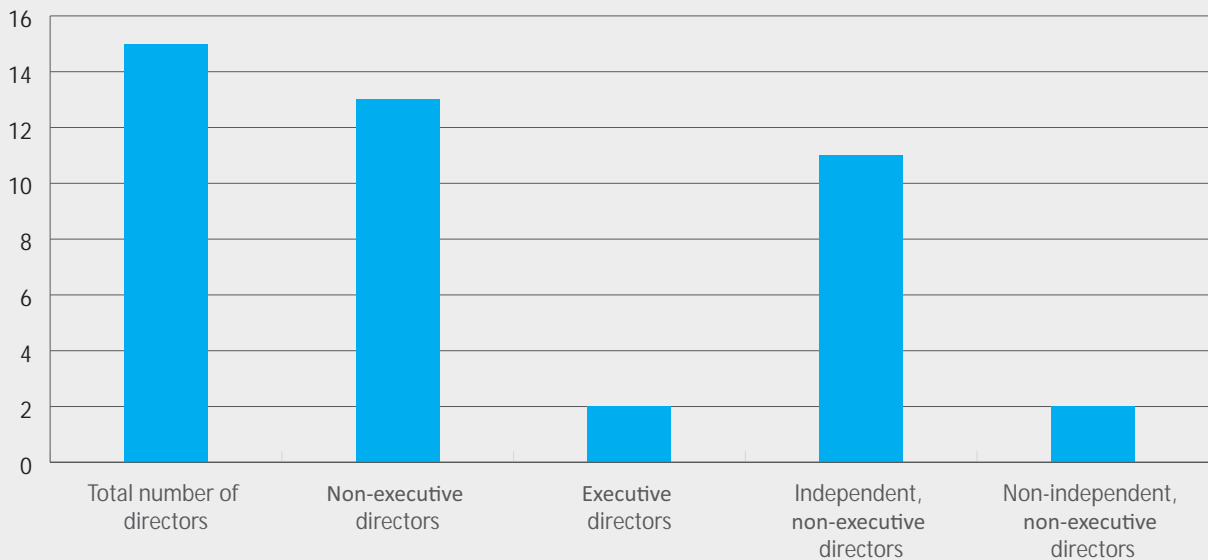
COMPOSITION OF THE BOARD

The chairman of the board is independent and free of conflict of interest on appointment.

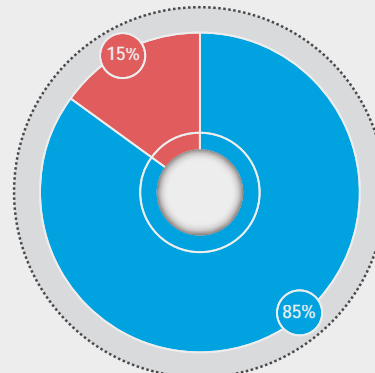
The strategic operational role of the CEO is separated from that of the chairman of the board.

The board of directors consists of an appropriate mix of individuals which ensures an adequate spread and level of knowledge, skills and expertise, with division of responsibilities and the accountability being outlined in the Board Charter.

MMI DIRECTORS



■ Executive directors
■ Non-executive directors



■ Independent non-executive directors
■ Non-independent non-executive directors

MEMBERS OF MMI HOLDINGS LTD BOARD AND COMMITTEES AS AT 30 JUNE 2016

	Independent committee members	Audit	Actuarial	Remuneration	Social, Ethics and Transformation	Fair Practices	Risk, Capital and Compliance	Nominations
Directors								
JJ Njeke (chairperson)								✓ ¹
Johan Burger (deputy chairperson)				✓ ¹				✓
Nicolaas Kruger (group CEO)			✓		✓	✓	✓	
Mary Vilakazi (group finance director)			✓					
Peter Cooper ²				✓ ³			✓ ⁴	
Fatima Jakoet		✓					✓	
Niel Krige								
Jabu Moleketi				✓	✓			
Syd Muller		✓			✓ ¹			
Vuyisa Nkonyeni							✓	
Khehla Shubane					✓	✓		
Frans Truter		✓ ¹					✓	✓
Ben van der Ross				✓	✓	✓ ¹		
Johan van Reenen				✓			✓	
Louis von Zeuner		✓					✓ ¹	✓
Voyt Krzychylkiewicz ⁶								
	Stephen Jurisich		✓ ¹			✓		
	George Marx					✓		
	Marli Venter		✓					
	David Park ³		✓					
	Sumarié Greybe ⁵		✓					

¹ Chairperson⁴ Appointed 1 February 2016² Appointed 20 November 2015⁵ Consultant³ Appointed 29 April 2016⁶ Appointed 21 July 2016 as alternate to Peter Cooper

ATTENDANCE AT MEETINGS FROM 1 JULY 2015 TO 30 JUNE 2016

	Holdings board	Audit	Actuarial	Remuneration	Social, Ethics and Transformation	Fair Practices	Risk, Capital and Compliance	Nominations
Meetings held	4	7	5	4	4	2	5	2
Members	Meetings attended							
JJ Njeke	4 ¹							2 ¹
Johan Burger	3			4 ¹				2
Nicolaas Kruger	4		5		4	2	5	
Mary Vilakazi	3		2					
Peter Cooper ²	2			2 ³			2 ⁴	
Leon Crouse ⁵	3						4 ⁵	
Fatima Jakoet	4	7					5	
Niel Krige	4							
Jabu Moleketi	4			3	4			
Syd Muller	4	6			4 ¹			
Vuyisa Nkonyeni	4						5	
Sizwe Nxasana ⁶	1							
Khehla Shubane	4				4	1		
Frans Truter	4	7 ¹					5	2
Ben van der Ross	3			3	3	2 ¹		
Johan van Reenen	4			4			5	
Louis von Zeuner	4	7					5 ¹	2
Stephen Jurisich ⁷			5 ¹			2		
George Marx ⁷						2		
Marli Venter ⁷			5					
David Park ⁷			1 ³					
Sumarié Greybe ⁸			5					

¹ Chairperson⁵ Resigned 31 March 2016² Appointed 20 November 2015⁶ Resigned 30 September 2015³ Appointed 29 April 2016⁷ Independent committee member⁴ Appointed 1 February 2016⁸ Consultant

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 48 and 49 of this integrated report.

The company complies with King III's recommendation of ensuring that the board comprises a majority of independent non-executive directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nominations Committee is responsible for considering, based on recommendations from the MMI Group CEO, suitable candidates for appointment as directors on the MMI Holdings board and the election or re-election of directors are duly tabled for shareholder approval. The appointment, rotation, resignation and removal of directors are undertaken in accordance with the Company's Memorandum of Incorporation, the Companies Act and other relevant prescriptions or requirements. The Nominations Committee also considers the fit and proper status of prospective directors as well as regularly reviews the fit and proper status of the appointed directors on the board. For further detail, refer to the MMI Memorandum of Incorporation on the MMI website www.mmiholdings.com.

BOARD COMMITTEES



SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The MMI Social, Ethics and Transformation Committee (SETC) is mandated and authorised by the board of directors of MMI to fulfil its monitoring and evaluation roles. 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 are encouraged by positive and affirmative policies.

Members	Number of meetings held	Number attended
Syd Muller (chairman)		4
Nicolaas Kruger		4
Jabu Moleketi		4
Khehla Shubane		4
Ben van der Ross		3



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

- Transformation remains one of the key focus areas of the SETC.
- Members approved the "Base Scenario" targets in formulating the employment equity (EE) targets, which was submitted to the Department of Labour in December 2015.
- Monitoring progress towards the achievement of the group's EE Plan.
- Monitoring the engagement plan with vendors for visible black ownership transformation.
- Ensuring that company procedures are ethical and in line with the legislative requirements for risk, compliance and Treating Customers Fairly (TCF).
- Monitoring the impact of CSI initiatives in targeted communities and beneficiaries.
- The SETC confirmed its support of the approved revised group transformation strategy, and the various initiatives in support of the implementation of the strategy.
- Progress towards the attainment of the strategic goals and objectives is monitored on a periodic basis, and the committee remains confident of achieving its various targets.
- The SETC has satisfied itself that the management of corruption, commercial crime and unethical employee behaviour is appropriately and effectively dealt with within the group.
- MMI is listed on the Johannesburg Stock Exchange FTSE/JSE Responsible Investment Index.
- The group calculates its carbon footprint on an annual basis, and also participates in the CDP process.
- MMI has a published environmental policy available on the website.

Transformation is integral to achieving MMI's vision of being the preferred lifetime Financial Wellness partner with a reputation for innovation and trustworthiness. B-BBEE underpins MMI's strategic objective to enhance financial wellness in a country that continues to grapple with inequality, access to financial services and lack of financial literacy amongst other issues.

B-BBEE supports the identified strategic focus areas of Client Centricity, Growth and Excellence that will contribute towards achieving MMI's vision.

In delivering its transformation strategic objectives, MMI continues to maintain a Level 2 Contributor status under the current Financial Sector Charter (FSC) framework.

SUSTAINABILITY GOVERNANCE

The head of sustainability reports to the group executive of Brand, Corporate Affairs and Transformation.



FAIR PRACTICES COMMITTEE

The Fair Practices Committee (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 group. The FPC acts as an independent governance forum responsible for overseeing the implementation of, and adherence to TCF in relation to life licence products business practices pertaining to linked-investment services provider (LISP) products, unit trust products, healthcare business, investment business, employee benefits business and all other operations forming part of MMI Group. Fair treatment is measured against the fairness outcomes defined by the Financial Services Board in their TCF initiative. FPC also 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 (PPFM).

Members	Number of meetings held	Number attended
Ben van der Ross (chairman)		2
Stephen Jurisich*		2
Nicolaas Kruger		2
George Marx*		2
Khehla Shubane		1



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

The FPC considered matters pertaining to some of the following:

- Key strategic insights from the MMI 2015 Client Experience Measure Survey.
- Improving customer satisfaction within MMI.
- The Momentum Complaints Dashboard.
- Introduction to the MMI Outcomes-Based Investment philosophy.
- Capital Protector Whole Life reviews.
- Updates on the MMI Group PPFM reports.

* Independent committee member



RISK, CAPITAL AND COMPLIANCE COMMITTEE

The committee is responsible for assisting the board in discharging its responsibility for risk, capital and compliance management within the MMI Group.

Members	Number of meetings held	Number attended
Louis von Zeuner (chairman)		5
Nicolaas Kruger		5
Peter Cooper*		2
Fatima Jakoet		4
Leon Crouse**		4
Vuyisa Nkonyeni		5
Frans Truter		5
Johan van Reenen		5



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

During the year, the committee focused on various matters such as the following:

- Reviewed and challenged the holistic risk profile (shareholder and policyholder risks) across MMI and the supporting risk management processes.
- Oversaw MMI's SAM implementation which included reviewing and approving policies and frameworks required under SAM and recommending certain policies for approval by the Board.
- Oversaw implementation of new risk appetite metrics and the Own Risk and Solvency Assessment (ORSA) process.
- Dividend sustainability for the foreseeable future, given the difficult economic and operating environment and the increased capital requirements under SAM.
- The potential impact of a sovereign debt downgrade scenario on MMI and the macroeconomic environment.
- Reviewed the financial performance of strategic initiatives and the financial risks attached to the initiatives, including improving the control environment of African country governance exposures.
- On the forward-looking capabilities, several discussions took place with regard to further developing forward-looking indicators in order to detect changes in the risk profile much sooner. In addition, the projected balance sheet project that is part of the ORSA process also forms part of the forward-looking capabilities of MMI. The committee engaged in the discussions around the selection of scenarios to be assessed, and will discuss the results of these projected balance sheet scenarios in June 2016.

* Appointed 1 February 2016

** Resigned 31 March 2016



NOMINATIONS COMMITTEE

The Nominations Committee makes recommendations to the board on various issues, such as the appointment of non-executive directors as well as executive directors and ensures that appropriate consideration is given to succession planning for key executives, including succession planning for the board and its committees and the appointment of members to board committees.

Members	Number of meetings held	Number attended
JJ Njeke (chairman)		2
Johan Burger		2
Frans Truter		2
Louis von Zeuner		2



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

During the preceding year, the following were some of the matters tabled at the Nominations Committee meetings:

- Changes to the composition of the board and board committees.
- Developments with regard to the new MMI client-centric model and change of group structure.
- The MMI annual board and committee assessments.
- Fit and Proper status of Responsible Persons within MMI and various governance-related matters.
- A key activity of the committee for the year was the approval of a board diversity policy, which promotes gender diversity at board level. Currently the voluntary target-setting for female representation on the MMI board is being investigated, taking into account the impact of other legislation, such as the B-BBEE Act and relevant BEE Charters, on such target-setting.



REMUNERATION COMMITTEE

The MMI Remuneration Committee (Remco) has an independent role to oversee the remuneration process and consider and approve remuneration related issues and proposed matters.

Members	Number of meetings held	Number attended
Johan Burger (chairman)		4
Peter Cooper		2
Jabu Moleketi		3
Ben van der Ross		3
Johan van Reenen		4



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

- In the past year, Remco maintained their focus to ensure that the MMI reward approach still aligns with good business practice and compliance as well as to ensure that the group remuneration policy/practices support the MMI strategic objectives.
- Based on extensive market research / benchmarks and in support of the new MMI strategic objectives, the Remco finalised the optimal remuneration structure and pay mix for executives. This will ensure that the MMI remuneration structure for both the guaranteed and variable components align with market norms and the new strategic long term targets.
- Further to this the MMI Short-Term Incentive Scheme Scorecard F2016 was approved which aligns to the group's strategic deliverables for F2016, as set out in the strategy map for MMI. This alignment represents an important milestone to monitor progress of the strategy.

Please see our remuneration report on page 65 for further detail.



ACTUARIAL COMMITTEE

The role of the Actuarial Committee is to provide effective actuarial expertise to the board, to enhance the 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.

Members	Number of meetings held	Number attended
Stephen Jurisich (chairman)*		5
Nicolaas Kruger		5
Mary Vilakazi		2
Sumarié Greybe*		5
Dave Park*		1
Marli Venter*		5



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

During the year, in addition to these roles:

- The Actuarial Committee played an instrumental role in reviewing SAM developments, focusing on implementation of SAM Pillar I, ORSA and balance sheet projections and stress testing as well as relevant SAM policies.
- The Actuarial Committee also reviewed the annual report of the MMI product management committees.

* Independent committee member



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.

Members	Number of meetings held	Number attended
Frans Truter (chairman)		7
Fatima Jakoet		7
Syd Muller		6
Louis von Zeuner		7



SUMMARY OF KEY STRATEGIC INITIATIVES IN 2016

During the year, various issues were tabled, such as:

- Approval of the published MMI Group financial results and those of relevant subsidiaries.
- Trading updates.
- Review of the integrated report.
- Approval of the risk-based internal audit plan for the financial year and quarterly internal audit feedback.
- Co-sourcing internal audit agreement approved.
- Approval of the external audit plan for the financial year and feedback from external audit at the financial year end meeting.
- Approval of external audit fees.
- Reviewing management's assessment of going concern.
- Development of the combined assurance model.
- Review of the group's internal financial controls (IFC).
- Recommendations on dividend proposals.

BOARD EVALUATION

In line with best practice and the King III recommended practices, MMI conducted a board and board committee evaluation (including a director self-assessment) in November 2015 for MMI Holdings Limited and MMI Group Limited. The evaluation was undertaken by a project consultant, in conjunction with the group secretariat and governance department, through a customised self-assessment questionnaire. There was 100% participation by all directors in the process and the final evaluation report was tabled at the MMI Nominations Committee and MMI board meetings at the end of November 2015. The results revealed that the board and board committees were performing well. Minor areas identified as requiring development were acknowledged and discussed at the Nominations Committee meeting. The MMI board and board committee evaluation process is conducted annually and the next one will be conducted during the F2017 financial period. An external assessment of the board is conducted every three to five years.


DELEGATION OF AUTHORITY

The board has delegated the authority for the management of the group to the MMI Group chief executive officer (CEO) 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 CEO has, in turn sub-delegated authority to the MMI executive committee members, who are mandated to further sub-delegate to appropriate officials within MMI. The board reviews the delegation of authority regularly, as deemed appropriate and still retains the power monitor management's actions and performance.

ETHICS

CODE OF CONDUCT

MMI has a code of ethics and standards for conduct for ensuring that the requisite behaviour is aligned with its values.

 For further details, refer to the group code of ethics on the MMI website www.mmiholdings.com.

The code of ethics and standards for conduct addresses, amongst others, the following areas:

- Commitment to regulatory compliance.
- Prohibiting the giving and receiving of bribes.
- Prohibiting facilitation of payments.
- Dealing with conflicts of interest.
- Anti-money laundering activities.
- Prohibition of anti-competitive practices.

REPORTING FRAUD AND UNETHICAL BEHAVIOUR

MMI has a number of business-specific anti-fraud and unethical behaviour reporting structures and processes in place, which includes telecommunication lines and web reporting tools for all employees, customers and authorities in local, and African subsidiaries. These reporting structures adhere to the standards set in relevant legislation and good corporate practices.

PROMOTION OF ACCESS TO INFORMATION ACT, 2 OF 2000

MMI Holdings has established a formal process to timeously deal with requests for access to records by third parties within the prescriptions of the Act.

INFORMATION TECHNOLOGY GOVERNANCE

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

Key responsibilities of the IT exco 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 segmental chief executive officers).
- IT performance monitoring and measurement.

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

MANAGING IT RISKS

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

- Ensuring the MMI IT risk management framework is appropriately implemented within all segments, functions, 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 MMI's IT risk exposure and the effectiveness of IT risk management processes are appropriate, including cyber-related risks.
- Monitoring key corrective actions initiated by management and the IT risk management functions.
- Reporting key IT risk exposure and the effectiveness of the management thereof to the Risk, Capital and Compliance 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 operating segments, 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 accountable to the board for managing and reporting identified compliance risks.

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

No material compliance breaches were reported during the period under review. MMI offers a wide range of financial services and is therefore subject to numerous legislative requirements when conducting business.

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

LEGISLATION	MANAGEMENT
Solvency Assessment and Management (SAM) regime	<p>Board Notice (BN) 158 of 2014 was issued by the Financial Services Board (FSB) in December 2014, with the purpose of prescribing the governance and risk management framework to be adopted by insurers in terms of section 12(1) of the Long-term and Short-term Insurance Acts. The BN requires licensed insurers to have in place certain controls, structures, policies, and procedures by 1 April 2015 which MMI adhered to.</p> <p>At the meeting of the FSB's SAM steering committee held on 26 March 2013 the FSB made an announcement that the implementation date of SAM will be delayed by a further year to 1 January 2017. MMI continues to monitor SAM developments.</p>
Twin Peaks	<p>MMI is involved in industry initiatives aimed at the effective implementation of the new regulatory regime and have started a process to identify activities required in order to align more closely with the new regulatory regime.</p>
Financial Intelligence Centre Amendment Bill	<p>The amendment to the legislation introduces a risk-based approach to the management of money laundering in order to combat financial crimes. MMI is participating in industry initiatives regarding the proposed amendments and is assessing the changes required to comply with the legislation as it develops.</p>
Cybercrime and Cybersecurity Bill	<p>MMI provided comment on the proposed Cybercrime and Cybersecurity Bill released by the Minister of Justice and Correctional Services. Globally increasing threats around cyber security as well as the increased demand for information prompted MMI to increase our focus on the effective management of this risk, not only to ensure compliance, but to enhance business efficiencies and client protection.</p>
Treating Customers Fairly (TCF)	<p>MMI has identified client centricity as one of the main pillars supporting the MMI strategy and alignment with the TCF outcomes is therefore key to implementation of the strategy. Achieving favourable customer outcomes is centre to the way business is conducted.</p>

COMPANY SECRETARY

The company secretary has unrestricted access to the chairman of the board and chairpersons of all board committees, including the MMI Group CEO, and plays a vital role in ensuring the effectiveness of the board and its committees. The board of directors has satisfied itself that the company secretary is suitably qualified and competent, in accordance with applicable legislation, to act as the group company secretary. There is an arm's length relationship between the board and the company secretary in that the objectivity and independence of the company secretary is not unduly influenced. The company secretary engages professionally and independently of management and the directors, and does not have executive duties and responsibilities other than those that are core to a company secretary. Further to this there is no conflict of interest affecting the company secretary's ability to adequately and effectively perform her duties. For the abbreviated CV of the group company secretary, Maliga Chetty, refer to the MMI website www.mmiholdings.com.

PRESCRIBED OFFICERS

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, and Mary Vilakazi. Their remuneration is set out on pages 69 to 71.

SHARE DEALING AND INSIDER TRADING

MMI developed and adopted a policy on dealings in MMI securities, which was approved at the board meeting during November 2013. The policy was subsequently amended to include an addendum, which deals with disclosure by members of the executive committee and key employees. In essence, the policy provides guidance on trading and restrictions on dealing in the company's listed shares during closed and prohibited periods as per the provisions of the JSE Listings Requirements. The directors and company secretary (including their associates) of MMI and its major subsidiaries



may not trade during a prohibited period. 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 above policies have been widely distributed within MMI to ensure that directors and employees are familiar with its content. The board has also approved an Information Policy during June 2015 which deals with the identification, classification and effect of information arising in the ordinary course of business and information arising not in the ordinary course of business with respect to the listed company and the regulatory and group compliance requirements in respect thereof.

POLITICAL PARTY SUPPORT

MMI endorses all the principles and institutions that support a free and democratic society. However, it does not make donations to or in favour of any political party.

MMI DIRECTORS' MMI SHAREHOLDING AS AT 30 JUNE 2016

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Nicolaas Kruger	64	4 573	4 637
Johan Burger	12	942	954
Niel Krige	–	408	408
Syd Muller	8	42	50
Sizwe Nxasana*	–	60	60
Khehla Shubane	78	7	85
Frans Truter	44	433	477
Johan van Reenen	–	40	40
Jabu Moleketi	–	70	70
Mary Vilakazi	–	1 703	1 703
Peter Cooper**	292	150	442
Total listed shares	498	8 428	8 926

* Retired as director of MMI Holdings Ltd on 30 September 2015.

** Appointed as director of MMI Holdings on 20 November 2015.

EUROPEAN CALL OPTIONS ON MMI SHARES

In terms of a private long term funding transaction with Rand Merchant Insurance Holdings Limited, the following executive directors have, in their individual capacities, purchased European Call Options on MMI shares as follows:

	Number of options	Date of transaction	Expiration date
Nicolaas Kruger	1 524 769	2015-12-07	2020-11-13
Mary Vilakazi	609 907	2015-12-07	2020-11-13
Nicolaas Kruger	2 733 082	2015-12-10	2020-11-13
Mary Vilakazi	1 093 233	2015-12-10	2020-11-13

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 25% shareholder in MMI: Johan Burger, Peter Cooper and Khehla Shubane.

DIRECTORS' SHAREHOLDINGS

The direct and indirect shareholdings of the directors of MMI as at 30 June 2016 are set out below. Directors have access to the group's shares through the open market.

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2015

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Nicolaas Kruger	64	315	379
Johan Burger	12	942	954
Niel Krige	–	408	408
Syd Muller	8	42	50
Sizwe Nxasana	–	60	60
Khehla Shubane	78	7	85
Frans Truter	44	433	477
Johan van Reenen	–	40	40
Total listed shares	206	2 247	2 453

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2016

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Johan Burger	–	1 184	1 184
Jabu Moleketi	6	14	20
JJ Njeke	17	–	17
Sizwe Nxasana	7	–	7
Khehla Shubane	25	10	35
Frans Truter	21	154	175
Peter Cooper	758	3 061	3 819
Total listed shares	834	4 423	5 257

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2015

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Johan Burger	–	1 184	1 184
Jabu Moleketi	6	14	20
JJ Njeke	17	–	17
Sizwe Nxasana	7	–	7
Khehla Shubane	–	10	10
Frans Truter	21	145	166
Total listed shares	51	1 353	1 404

All changes in directors' MMI and RMI shareholding between 30 June 2015 and 30 June 2016 were published on SENS as prescribed. No changes in the above shareholding/interest occurred between 30 June 2016 and the date of approval of these annual financial statements.

We are pleased to present our report for the financial year ended 30 June 2016.

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 combined assurance forums established for various operating structures. The segmental combined assurance forums report to the MMI Audit Committee on a quarterly basis. The Audit Committee consists of four independent non-executive directors, and is attended by some management representatives of the segmental combined assurance forums.

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



Additional detail on the Audit Committee can be found on page 57 of the integrated report.

TERMS OF REFERENCE

The Audit Committee has terms of reference that 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.

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 external 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 166.



The Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Mr Andrew Taylor as the designated auditor responsible for performing the function of auditor for the 2016 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 group internal audit (GIA) function has undergone a significant change during the past financial year. In order to align, inter alia, with the changes in MMI's strategy and client-centric operating model, MMI entered into a strategic internal audit co-sourcing agreement with KPMG as external service provider.

MMI's chief audit executive (CAE), Ms A van der Colff was appointed on 1 May 2016, replacing the previous acting CAE, Ms J Terblanche, who fulfilled this role until 31 March 2016. The role of the CAE within MMI is supported by a more confined GIA internal team and the CAE is responsible for the management and coordination of the KPMG relationship. It is anticipated that the new co-sourced GIA model will result in a high-performing, efficient, and cost-effective GIA function for MMI. The move should also improve the level of independent assurance provided to the MMI board and its committees.

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 CAE, in discharging of her duties, is accountable to the board and Audit Committee of MMI Holdings, which consists of MMI Holdings Ltd and its subsidiaries. The Audit Committee decides on the CAE's appointment and removal, and is also responsible for assessing the performance of the chief audit executive and the internal audit function.

Internal audit operates according to the internal audit charter, which was approved by the board. Due to the changes currently in the business as a result of the implementation of a client-centric model, internal audit changed their approach to the audit plan in order to remain flexible through the change process. As a result, the risk-based internal audit plan for the 2016 financial year was approved by the Audit Committee on a quarterly basis.

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

Mary Vilakazi has continued in her role as the group finance director.

The Audit Committee has satisfied itself that Mary Vilakazi has the appropriate expertise and experience to act in this capacity.

GOVERNANCE OF RISK

The board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance Committee. The chairman of the Risk, Capital and Compliance Committee is a member of the Audit Committee and likewise, the chairman of the Audit Committee is a member of the Risk, Capital and Compliance 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 2016 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.

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

	Audit
Meetings held in 2016	7
	Meetings attended
Members	
Frans Truter (chairman)	7
Fatima Jakoet	7
Syd Muller	6
Louis von Zeuner	7

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.

FRANS TRUTER

Chairman of the Audit Committee

6 September 2016

In setting and reviewing our remuneration strategy and policy, we have sought to align our practices with market best practice, as well as the King III Report on Corporate Governance, the draft King IV Report, and all relevant regulations.

Please see the table below for feedback received from shareholders on the 2015 remuneration policy.

SHAREHOLDER FEEDBACK	RESPONSE FROM THE REMUNERATION COMMITTEE
There was a large long-term award for the CEO, with the same ROEV performance condition as featured in the standard LTIP.	The once off long-term outperformance award for the CEO in 2015 had more stretching performance conditions than the standard annual LTIP award. The standard annual LTIP award was targeted for 100% vesting at ROEV of nominal GDP +3%, whereas the once off long-term outperformance award was targeted for 100% vesting when ROEV meets or exceeds nominal GDP +6% at the time.
There were two large loss of office payments made to two directors who left the company.	The payments made were part of a mutual separation agreement, and not part of the executives' employment contracts. The payments took into account a restraint of trade payment, as well as invested short-term incentive (STI) and long-term incentive plans (LTIP) awards.
Hourly payments for non-executive directors will increase their dependence on the company.	The ad hoc hourly fees are supplementary for significant additional work done during the financial year, and are non-guaranteed payments. Supplementary fees are only paid for ad hoc committee work required from the non-executive directors, and are detailed separately in the disclosure of remuneration of non-executive directors.
There is no clear maximum award limit for any of the incentive plans.	The STI is capped at 200% of total guaranteed pay (TGP). The maximum allocation of the annual LTIP is also capped at 200% of TGP. We have disclosed the dilution limits for the overall LTIPs, as well as for individual employees' in part two of this remuneration report which starts on page 66.
The performance period for the LTIP should be longer, with a further holding period.	The minimum shareholding requirements (MSRs) which were introduced in the 2015 financial year create a sufficiently long post-vesting retention period. The three-year vesting period is in line with market practice. Furthermore, the once-off outperformance award introduced in the 2015 financial year vests over five years.
There should be at least two performance metrics, as well as non-financial measures for the incentive plans.	The STI is measured against a balanced scorecard, which incorporates financial and strategic objectives. The LTIP is geared towards growth in ROEV, which is in line with the company's strategic objectives of long-term value creation for shareholders (which, at a group level, is measured as ROEV).



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 52. The activities of the committee for the year under review are detailed on page 56. The remuneration policy is based fundamentally on the following principles:

- The remuneration policy is aligned with the overall business strategy, objectives and values of the group without being detrimental to the interests of its policyholders.
- 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, business unit and individual performance.
- Subjective and objective measures are used for individual performance appraisal purposes.
- The policy takes into account the 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). Pay bands will take into account 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, or collaboration in meeting team objectives.
- The short-term incentive (or performance bonus) scheme is used to promote goal attainment (mutually agreed, strategically aligned outcomes or 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 functions is determined independently of the various segments in MMI, with performance measures based principally on the achievement of their function's current objectives.
- Incentives are based on targets that are stretching, verifiable and relevant. Multiple performance measures are used to avoid manipulation of results or poor business decisions.
- Incentive awards are made on a sliding scale to avoid an "all or nothing" vesting profile and start at a level that is not significant in comparison with base pay. Full vesting requires significant value creation.

REMUNERATION STRUCTURE

Guaranteed remuneration/package

- The key objective is to provide the base element of remuneration that reflects the person's role or position at MMI and is payable for doing the expected job.
- Guaranteed remuneration is paid monthly on a cost to company basis.
- Guaranteed remuneration is generally targeted at the median or 50th percentile level.
- Guaranteed remuneration is normally benchmarked against the financial services market.
- Guaranteed remuneration is set at a level that aligns with expected operational performance.
- All employees, including executive directors, managing executives, heads of control functions and other employees, who may have a material impact on the risk exposure of MMI, are eligible for the guaranteed remuneration.

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 preset, 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?

- All employees are eligible to participate in the performance bonus scheme.

What performance objectives have to be met?

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

Who approves the performance objectives?

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

How is performance appraised?

- The group and business unit 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, business unit 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, business unit and personal performance criteria are met, performance bonuses are determined annually and paid as set out below:

- 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, segment or individual deteriorates significantly prior to the payout dates of the remaining tranches.

Long-term incentive plan (LTIP)

- The purpose of the LTIP is to attract, motivate, reward and thus help in retaining 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. On vesting participants are paid a cash amount, calculated using the value of a 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 return on embedded value (ROEV), measured against the 10-year return on RSA government bonds. The targeted ROEV over a financial year is the 10-year zero-coupon RSA bond yield at the start of the financial year, plus 300 basis points. At this level, performance units fully vest. ROEV in excess of a 300 basis point margin designates outperformance, with up to 200% vesting of performance units occurring at a margin of 600 basis points above the 10-year RSA government bond yield.
- For tranches issued prior to 2015, the performance target was expressed not relative to the 10-year bond yield, but relative to the annual growth in nominal GDP, with full vesting occurring at GDP + 300 basis points.
- ROEV is a risk-cognisant metric, because it references economic and other capital consumed by the business. Economic capital is determined using a risk-based approach.
- The vesting of performance units is determined in accordance with performance levels, namely threshold performance (30% vesting), target performance (100% vesting) and stretch performance (200% vesting).
- The Remuneration Committee may, at 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.

BALANCED SCORECARD

In line with the group's client-centric strategy, the F2016 balanced scorecard (in respect of the short-term incentive scheme) was substantially revised compared to previous years. During F2016, the group-level scorecard measured performance under each of the following key focus areas:

- Financial aspirations:
 - Core headline earnings
 - Return on embedded value (ROEV)
 - Embedded value of new business (VNB)
 - Cost efficiency
- Client aspirations and client satisfaction
- Internal objectives
 - Growth (diversification, increasing client base and value of existing clients)
 - Client centricity (Financial Wellness and client relationships)
- Strategic enablers
 - Various focus areas, including flexibility and modularity of systems, analytics capabilities and a collaborative, client-centric and innovative culture
- Transformation

The above relates to group objectives. In addition, each client segment and major business unit has its own scorecard that aligns with the group scorecard, but contains segment-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 client segment and business unit against its scorecard determines how the aggregate bonus pool gets distributed.

PERFORMANCE SCORECARD 2016

MMI's performance under its short-term performance scorecard for F2016 was as follows:

	Weight	F2015 target	Actual	Achieved
Return on embedded value	20%	11.6%	12.8%	↑↑
Core headline earnings	20%	10% growth	(16%)	↓↓↓
Value of new business	15%	R905m	R850m	↓
Optimisation and expense savings programme	10%	R100m	R104m	↑↑
Strategic initiatives	35%		on target	↔

LONG-TERM INCENTIVE SCHEME (PERFORMANCE TO DATE)

Return on embedded value (ROEV)	Target	ROEV*
Notional shares issued 2013 and vesting 2016		
Annualised performance for the 36 months 1 July 2013 to 30 June 2016	9.8%	13.7%
Notional shares issued 2014 and vesting 2017		
Annualised performance for the 24 months 1 July 2014 to 30 June 2016	9.1%	11.2%
Notional shares issued 2015 and vesting 2018		
Annualised performance for the 12 months 1 July 2015 to 30 June 2016	11.6%	12.8%

* Average annualised percentages, measured since inception of each tranche up to 30 June 2016.

DISCLOSURE OF DIRECTORS' REMUNERATION

Details of the remuneration of executive and non-executive directors are provided on pages 69 to 72.



DIRECTORS' 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 R000		Salary R000		Performance bonus R000	
	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015
Nicolaas Kruger	12	12			5 926	5 562	5 073	5 404
Mary Vilakazi ¹	12	–			3 152		2 914	
Wilhelm van Zyl ²	–	–						
Preston Speckmann ³	–	12				4 485		2 758
Ngao Motsei ⁴	–	12				2 489		2 014
Ben van der Ross	12	12	1 761	1 553				
Fatima Jakoet	12	12	958	1 155				
Frans Truter	12	12	2 188	2 302				
Jabu Moleketi	12	12	937	819				
JJ Njeke	12	12	1 791	1 681				
Johan Burger	12	12	1 470	1 169				
Johan van Reenen	12	12	970	910				
Khehla Shubane	12	12	778	731				
Leon Crouse ⁵	9	12	555	732				
Louis von Zeuner	12	12	1 667	1 442				
Niel Krige	12	12	619	581				
Sizwe Nxasana ⁶	3	12	109	822				
Syd Muller	12	12	1 067	1 262				
Vuyisa Nkonyeni	12	12	689	761				
Peter Cooper ⁷	7	–	364					
			15 923	15 920	9 078	12 536	7 987	10 176

Directors	Long-term incentive payments		Loss of office R000		Pension fund R000		Ad hoc fees R000		Total R000	
	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015
Nicolaas Kruger	11 247	13 380			338	319			22 584	24 665
Mary Vilakazi ¹	–				555				6 621	
Wilhelm van Zyl ²				25 000					–	25 000
Preston Speckmann ³		5 295	10 000			225			10 000	12 763
Ngao Motsei ⁴		2 792		10 000		319			–	17 614
Ben van der Ross							43		1 804	1 553
Fatima Jakoet									958	1 155
Frans Truter									2 188	2 302
Jabu Moleketi									937	819
JJ Njeke							17		1 808	1 681
Johan Burger									1 470	1 169
Johan van Reenen									970	910
Khehla Shubane									778	731
Leon Crouse ⁵									555	732
Louis von Zeuner							26		1 693	1 442
Niel Krige									619	581
Sizwe Nxasana ⁶									109	822
Syd Muller							43		1 110	1 262
Vuyisa Nkonyeni									689	761
Peter Cooper ⁷									364	
	11 247	21 467	10 000	35 000	893	863	129	–	55 257	95 962

[#] Bonus payments relate to the 2015 financial year's bonus.

¹ Appointed 1 July 2015

² Resigned 30 June 2014

³ Resigned 30 June 2015

⁴ Resigned 30 June 2015

⁵ Resigned 31 March 2016

⁶ Resigned 30 September 2015

⁷ Appointed 20 November 2015

LTI PERFORMANCE OUTCOMES

The following section sets out the unvested LTIs awarded under the company's LTIP and OPP schemes.

	N Kruger			M Vilakazi		
	MMI LTIP Retention units '000	MMI LTIP Performance units '000	OPP Performance Units '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000	OPP Performance Units '000
Units in force at 30 June 2014	162	1 075	–	31	125	–
Units granted during year	155	405	1 498	37	147	749
Granted at prices ranging between (cents)	2 826 – 2 833	2 833	2 833	2 826 – 2 833	2 833	2 833
Units exercised/released during year	(61)	(398)	–	–	–	–
Market value of range at date of exercise/release (cents)	2 907	2 907	–	–	–	–
Units in force at 30 June 2015	256	1 082	1 498	68	272	749
Units granted during year	173	490	100	88	206	50
Granted at prices ranging between (cents)	2 464 – 2 636	2 464 – 2 636	2 464 – 2 498	2 464 – 2 636	2 464 – 2 636	2 464 – 2 498
Units exercised/released during year	(59)	(393)	–	–	–	–
Market value of range at date of exercise/release (cents)	2 489	2 489	–	–	–	–
Units in force at 30 June 2016	370	1 179	1 598	156	478	799

	P Speckmann		N Motsei		W van Zyl	
	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000
Units in force at 30 June 2014	98	391	66	267	137	720
Units granted during year	63	135	33	85	–	–
Granted at prices ranging between (cents)	2 826 – 2 833	2 833	2 826 – 2 833	2 833	–	–
Units exercised/released during year	(36)	(146)	(19)	(77)	–	–
Market value of range at date of exercise/release (cents)	2 907	2 907	2 907	2 907	–	–
Units cancelled/lapsed during year	–	–	(80)	(275)	(137)	(720)
Units in force at 30 June 2015	125	380	–	–	–	–
Units cancelled/lapsed during year	(125)	(380)	–	–	–	–
Units in force at 30 June 2016	–	–	–	–	–	–

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

	N Kruger			M Vilakazi			P Speckmann	
	MMI LTIP Retention units '000	MMI LTIP Performance units '000	OPP Performance units '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000	OPP Performance units '000	MMI LTIP Retention units '000	MMI LTIP Performance units '000
2016								
Financial year 2016/2017	156	363		36	142			
Financial year 2017/2018	151	391		73	150			
Financial year 2018/2019	63	425	959	47	186	479		
Financial year 2019/2020			639			320		
Total outstanding shares	370	1 179	1 598	156	478	799		
2015								
Financial year 2015/2016	57	381		–	–		35	139
Financial year 2016/2017	145	337		33	133		60	121
Financial year 2017/2018	54	364		35	139		30	120
Financial year 2018/2019			899					
Financial year 2019/2020			599					
Total outstanding shares	256	1 082	1 498	68	272	–	125	380

The performance outcomes are set out in the table below.

Return on embedded value (ROEV)	Target	ROEV*
Notional shares issued 2013 and vesting 2016		
Annualised performance for the 36 months 1 July 2013 to 30 June 2016	9.8%	13.7%
Notional shares issued 2014 and vesting 2017		
Annualised performance for the 24 months 1 July 2014 to 30 June 2016	9.1%	11.2%
Notional shares issued 2015 and vesting 2018		
Annualised performance for the 12 months 1 July 2015 to 30 June 2016	11.6%	12.8%

* Average annualised percentages, measured since inception of each tranche up to 30 June 2016.

NON-EXECUTIVE DIRECTORS' REMUNERATION

In compliance with the provisions of section 66(8) (read with section 66(9) of the Act, the company may pay remuneration to its directors for their service as directors in accordance with a special resolution approved by the shareholders within the previous two years. A special resolution, as required by the Act and the company's MOI was passed at the annual general meeting (AGM) of the company in November 2015 and is valid until November 2017. It should be noted that, as determined by the Remuneration Committee and approved by the board of the company, the fees set out below remain unchanged from those fees approved by shareholders at the AGM in November 2015. Thus, the scale of remuneration paid with effect from 1 September 2015 will continue to be effective from 1 September 2016 in accordance with company policy and the decision taken by the board of the company.

Executive directors shall not be remunerated for their services as directors of the company or its subsidiaries.

	Annual fee: 2017 (No increase from 2016)
Chairperson of the board	R1 292 500
Deputy chairperson of the board	R646 280
Board member	R465 030
Chairperson of audit committee	R387 730
Member	R193 280
Chairperson of actuarial committee	R322 510
Member	R193 280
Chairperson of remuneration committee	R322 510
Member	R160 660
Chairperson of risk, capital and compliance committee	R387 730
Member	R193 280
Chairperson of social, ethics and transformation committee	R258 500
Member	R160 660
Chairperson of nominations committee	R193 280
Member	R96 640
Chairperson of fair practices committee	R258 500
Member	R160 660
Chairperson of board*	R258 500
Member*	R160 660
Ad hoc work (hourly)	R4 525

* Boards established for segments and Centres of Excellence in terms of the new MMI client-centric model.



MMI HOLDINGS



2016

financial statements

MMI HOLDINGS LTD GROUP ANNUAL FINANCIAL STATEMENTS 30 JUNE 2016

Directors' responsibility and approval	75
Certificate by the group company secretary	75
Report of the independent auditors	76
Definitions	77
Report on the review of the report on group embedded value	80
Report on group embedded value	81
Directors' Report	93
Statutory excess	97
Statement of financial position	98
Income statement	99
Statement of other comprehensive income	100
Statement of changes in equity	101
Statement of cash flows	102
Group accounting policies	103
Critical judgements and accounting estimates	122
Segmental report	123
Notes to the financial statements	129
MMI Holdings Ltd annual financial statements	225

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

DIRECTORS' RESPONSIBILITY AND APPROVAL

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

To enable the directors to meet these responsibilities:

- The group and company financial statements are prepared by management; opinions are obtained from the statutory actuaries of the life insurance companies and the external auditors of the companies.
- The board is advised by the Audit Committee, comprising only independent non-executive directors, and the Actuarial Committee. These committees meet regularly with the auditors, the statutory actuaries and the management of the group to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and advisory practice notes issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the statutory actuaries of the companies have unrestricted access to these committees.

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

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, the Long-term Insurance Act, 52 of 1998, and the Short-term Insurance Act, 53 of 1998, as amended, and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 76.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 93 to 248, were approved by the board of directors on 6 September 2016 and are signed on its behalf by:



JJ Njeke
Group chairman
Centurion, 6 September 2016



Nicolaas Kruger
Group chief executive officer
Centurion, 6 September 2016

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 2016 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, 6 September 2016

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF MMI HOLDINGS LTD

We have audited the consolidated and separate financial statements of MMI Holdings Limited set out on pages 98 to 248, which comprise the statement of financial position as at 30 June 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, 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 consolidated and separate 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 Limited as at 30 June 2016, 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 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of MMI Holdings Limited for 37 years.



PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered auditor
Sunninghill, 6 September 2016

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 (CGUs)

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

Cell captive

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

Cell captive arrangements include:

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

Compulsory margins

Life insurance companies are required to hold compulsory margins in terms of the financial soundness valuation basis prescribed in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. These margins are explicitly prescribed and held as a buffer to cover uncertainties with regard to the best-estimate assumptions used in the financial soundness valuation basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Core headline earnings

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

Cost of required capital

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

Covered business

Covered business is defined as long-term insurance business recognised in the group integrated report; in respect of Guardrisk, only including the South African long-term insurance business. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the life insurance subsidiaries. International Health businesses in Africa are exposed to the underlying risk of the health schemes and are therefore also classified as covered business.

Discretionary margins

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

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

Discretionary participation feature (DPF)

A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

Effective exposure

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

Effective interest rate

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

Effective interest rate method

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

Embedded value (EV)

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

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

Embedded value earnings

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

Financial soundness valuation (FSV)

The FSV basis is prescribed by SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers – and uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence. For International Financial Reporting Standards (IFRS) reporting purposes, this basis is used for the valuation of insurance contracts and investment contracts with DPF.

Fund account

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

New business profit margin

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

Non-covered business

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

Objective evidence of impairment

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

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in payment.
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset.

Open-ended instruments

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

Prescribed officers

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

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

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

Present value of future premiums (PVP)

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

Present value of in-force covered business (VIF)

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

Related party transactions – key management personnel

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

Reporting basis

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

Required capital

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

Return on embedded value

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

Risk discount rate

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

Significant influence

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

Statutory basis

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

Unit-linked investments

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

Useful life

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

Value of new business

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

REPORT ON THE REVIEW OF THE REPORT ON GROUP EMBEDDED VALUE

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

INTRODUCTION

We have reviewed the Report on Group Embedded Value of MMI Holdings Limited and its subsidiaries (the "Group") for the year ended 30 June 2016, as set out on pages 81 to 92 (the "Report"). This report should be read in conjunction with the audited consolidated financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, set out on pages 98 to 248. The Report is prepared for the purpose of setting out the embedded value of the Group for the year ended 30 June 2016. The directors of MMI Holdings Limited 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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the 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 2016. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of MMI Holdings Limited and should not be used by any other parties. We agree to the publication of our report in the integrated report of MMI Holdings Limited for the year ended 30 June 2016 provided it is clearly understood by the recipients of the integrated report that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.



PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered auditor
Sunninghill, 6 September 2016

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). From 1 July 2015 the MMI group embarked on a new segmental reporting view that is aligned with the new client-centric goals of the group. The analysis of changes in group embedded value has been disclosed on this new internal structure and the prior year has been restated.

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 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.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

EMBEDDED VALUE RESULTS	2016 Rm	2015 Rm
Covered business		
Reporting excess – long-term insurance business	17 699	17 465
Reclassification to non-covered business	(1 262)	(1 204)
	16 437	16 261
Disregarded assets ¹	(531)	(575)
Difference between statutory and published valuation methods	(575)	(839)
Dilutory effect of subsidiaries ²	(51)	(38)
Consolidation adjustments ³	(40)	(5)
Value of MMI Group Ltd preference shares issued	(500)	(500)
Diluted adjusted net worth – covered business	14 740	14 304
Net value of in-force business	21 668	21 696
Diluted embedded value – covered business	36 408	36 000
Non-covered business		
Net assets – non-covered business within life insurance companies	1 262	1 204
Net assets – non-covered business outside life insurance companies	2 939	3 256
Consolidation adjustments and transfers to covered business ³	(2 776)	(3 024)
Adjustments for dilution ⁴	690	819
Diluted adjusted net worth – non-covered business	2 115	2 255
Write-up to directors' value	4 466	2 075
Non-covered business	5 573	4 143
Holding company expenses ^{5, 6}	(557)	(1 578)
International holding company expenses ⁵	(550)	(490)
Diluted embedded value – non-covered business	6 581	4 330
Diluted adjusted net worth	16 855	16 559
Net value of in-force business	21 668	21 696
Write-up to directors' value	4 466	2 075
Diluted embedded value	42 989	40 330
Required capital – covered business (adjusted for qualifying debt) ⁷	6 484	7 306
Surplus capital – covered business	8 256	6 998
Diluted embedded value per share (cents)	2 680	2 514
Diluted adjusted net worth per share (cents)	1 051	1 032
Diluted number of shares in issue (million) ⁸	1 604	1 604

¹ Disregarded assets include Sage intangible assets of R491 million (2015: R518 million), goodwill and various other items.

² For accounting purposes, Metropolitan Health has been consolidated at 100%, while MMI Holdings Namibia, Metropolitan Kenya and Cannon have been consolidated at 96% in the statement of financial position, for the current year. For embedded value purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated.

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

⁴ Adjustments for dilution are made up as follows:

- Dilutory effect of subsidiaries (note 3): R123 million (2015: R103 million)
- Treasury shares held on behalf of contract holders: R292 million (2015: R424 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R275 million (2015: R292 million)

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

⁶ The holding company expense adjustment reduced in the current year due to a reallocation of expenses to the operating life company covered business as part of the implementation of the client-centric model. For further detail refer to note N of the Analysis of Changes in the Group Embedded Value.

⁷ The required capital for covered business amounts to R10 041 million (2015: R10 604 million) and is adjusted for qualifying debt of R3 557 million (2015: R3 298 million).

⁸ The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

	2016 Rm	Restated 2015 Rm
ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS		
Momentum Retail	11 409	11 331
Gross value of in-force business	12 803	12 818
Less: cost of required capital	(1 394)	(1 487)
Metropolitan Retail	3 692	3 582
Gross value of in-force business	4 376	4 288
Less: cost of required capital	(684)	(706)
Corporate and Public Sector	4 341	4 657
Gross value of in-force business	5 120	5 354
Less: cost of required capital	(779)	(697)
International	2 157	2 108
Gross value of in-force business	2 444	2 310
Less: cost of required capital	(287)	(202)
Shareholder Capital	69	18
Gross value of in-force business	69	18
Less: cost of required capital	–	–
Net value of in-force business	21 668	21 696

	Adjusted net worth Rm	Net value of in-force Rm	2016 Rm	2015 Rm
EMBEDDED VALUE DETAIL				
Covered business				
South African life licences	12 517	19 511	32 028	32 040
MMI Group Ltd	12 348	18 851	31 199	31 391
Guardrisk Life Ltd	169	660	829	649
International	2 223	2 157	4 380	3 960
MMI Holdings Namibia Ltd	800	1 358	2 158	1 972
Metropolitan Life of Botswana Ltd	452	224	676	571
Metropolitan Lesotho Ltd	372	386	758	847
Other international businesses ¹	599	189	788	570
Total covered business	14 740	21 668	36 408	36 000

	Adjusted net worth Rm	Write-up to directors' value Rm	2016 Rm	2015 Rm
Non-covered business				
Momentum Investments ²	734	2 087	2 821	2 165
Health businesses ^{3,4}	62	1 364	1 426	1 660
Momentum Retail (Wealth) ³	391	578	969	817
Guardrisk business ^{3,5}	597	1 144	1 741	1 446
Momentum Short-term Insurance (MSTI)	299	81	380	377
International ^{4,6,7}	(752)	(407)	(1 159)	(805)
MMI Holdings Ltd (after consolidation adjustments) ^{4,7,8}	784	(381)	403	(1 330)
Total non-covered business	2 115	4 466	6 581	4 330
Total embedded value	16 855	26 134	42 989	40 330
Diluted adjusted net worth – non-covered business	(2 115)			
Adjustments to covered business – adjusted net worth	2 959			
Reporting excess – long-term insurance business	17 699			

¹ African life and health businesses are included in covered business for embedded value purposes.

² The material Momentum Investments subsidiaries are valued using a discounted cash flow methodology applied to projections of future earnings.

³ The Health businesses, Momentum Retail (Wealth off-balance sheet) and Guardrisk are valued using embedded value methodology.

⁴ The increase in the adjusted net worth for the holding company is offset by the decrease in the International and Health adjusted net worth. These movements were due to intergroup transactions and alignment in the treatment of intercompany loans.

⁵ This excludes Guardrisk Life which is included under covered business.

⁶ Cannon is included within International's non-covered business.

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 holding company expense adjustment reduced in the current year due to a reallocation of expenses to the operating life company covered business as part of the implementation of the client-centric model. For further detail refer to note N of the Analysis of Changes in the Group Embedded Value.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business			12 months to	12 months to
		ANW Rm	Gross VIF Rm	Cost of CAR Rm	30.06.2016 Total EV Rm	30.06.2015 Total EV Rm
Profit from new business		(1 438)	2 569	(180)	951	1 054
Embedded value from new business	A	(1 438)	2 468	(180)	850	954
Expected return to end of period	B	–	101	–	101	100
Profit from existing business		3 766	(2 166)	(24)	1 576	3 063
Expected return – unwinding of risk discount rate	B	–	2 697	(345)	2 352	2 213
Release from the cost of required capital	C	–	–	457	457	445
Expected (or actual) net of tax profit transfer to net worth	D	4 310	(4 310)	–	–	–
Operating experience variances	E	(236)	148	(42)	(130)	501
Development expenses	F	(99)	–	–	(99)	(79)
Operating assumption changes	G	(209)	(701)	(94)	(1 004)	(17)
Embedded value profit from operations		2 328	403	(204)	2 527	4 117
Investment return on adjusted net worth	H	893	–	–	893	664
Investment variances	I	33	(306)	147	(126)	(406)
Economic assumption changes	J	(39)	(112)	19	(132)	58
Exchange rate movements	K	(31)	16	2	(13)	(7)
Embedded value profit – covered business		3 184	1	(36)	3 149	4 426
Transfer of business (to)/from non-covered business	L	30	23	(16)	37	723
Changes in share capital	M	117	–	–	117	202
Dividend paid		(2 895)	–	–	(2 895)	(3 744)
Change in embedded value – covered business		436	24	(52)	408	1 607
Non-covered business						
Change in directors' valuation and other items	N				1 065	(357)
Holding company expenses	N				961	(275)
Embedded value profit – non-covered business					2 026	(632)
Changes in share capital	M				(117)	(202)
Dividend paid					420	649
Finance costs – preference shares					(41)	(44)
Transfer of business to covered business	L				(37)	(723)
Change in embedded value – non-covered business					2 251	(952)
Total change in group embedded value					2 659	655
Total embedded value profit					5 175	3 794
Return on embedded value (%) – internal rate of return					12.8	9.6

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 for retail and traditional corporate business:

- A policy is only taken into account for new business if at least one premium, that has not subsequently been refunded, is recognised in the financial statements.
- Premium increases that have been allowed for in the value of in-force covered business are not included as new business at inception.
- The expected value of future premium increases, resulting from premium indexation on the new recurring premium business written during the financial year under review, is included in the 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 existing group insurance contracts are treated as in-force covered business.

In determining the value of new business for cell captive business:

- A cell is recognised as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting period.
- Increases in business from new cells or new benefits in existing cells are included as new business; but new members or salary-related increases under existing cells are allowed for in the value of in-force covered business.

	12 months to 30.06.2016 Rm	12 months to 30.06.2015 Rm
RECONCILIATION OF LUMP SUM INFLOWS		
Total lump sum inflows	29 784	33 023
Inflows not included in value of new business	(6 632)	(8 966)
Term extensions on maturing policies	342	558
Retirement annuity proceeds invested in living annuities	1 008	822
Non-controlling interests and other adjustments	150	110
Single premiums included in value of new business	24 652	25 547

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

A. VALUE OF NEW BUSINESS *continued*

VALUE OF NEW BUSINESS 12 months to 30.06.2016	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector¹ Rm	International Rm	Total Rm
Value of new business	290	191	298	71	850
Gross	362	244	341	83	1 030
Less: cost of required capital	(72)	(53)	(43)	(12)	(180)
New business premiums	19 365	2 343	7 665	906	30 279
Recurring premiums	1 292	1 087	2 790	458	5 627
Single premiums	18 073	1 256	4 875	448	24 652
New business premiums (APE)	3 099	1 213	3 278	503	8 093
New business premiums (PVP)	25 950	4 936	34 699	2 579	68 164
Profitability of new business as a percentage of APE	9.4	15.7	9.1	14.1	10.5
Profitability of new business as a percentage of PVP	1.1	3.9	0.9	2.8	1.2

Restated 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector¹ Rm	International Rm	Total Rm
Value of new business	276	185	427	66	954
Gross	340	232	518	78	1 168
Less: cost of required capital	(64)	(47)	(91)	(12)	(214)
New business premiums	18 726	2 450	7 773	686	29 635
Recurring premiums	1 283	1 035	1 368	402	4 088
Single premiums	17 443	1 415	6 405	284	25 547
New business premiums (APE)	3 027	1 177	2 009	430	6 643
New business premiums (PVP)	25 458	5 091	17 683	2 164	50 396
Profitability of new business as a percentage of APE	9.1	15.7	21.3	15.3	14.4
Profitability of new business as a percentage of PVP	1.1	3.6	2.4	3.0	1.9

¹ The Corporate and Public Sector recognises cell captive business as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting period.

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 30.06.2016	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector¹ Rm	International Rm	Total Rm
New business premiums	19 365	2 343	7 665	906	30 279
Recurring premiums	1 292	1 087	2 790	458	5 627
Risk	560	703	390	–	1 653
Savings/investments	732	384	315	–	1 431
Annuities	–	–	1	–	1
Cell captives	–	–	2 084	–	2 084
International	–	–	–	458	458
Single premiums	18 073	1 256	4 875	448	24 652
Savings/investments	17 091	312	3 499	–	20 902
Annuities	982	944	1 162	–	3 088
Cell captives	–	–	214	–	214
International	–	–	–	448	448
New business premiums (APE)	3 099	1 213	3 278	503	8 093
Risk	560	704	391	–	1 655
Savings/investments	2 441	415	665	–	3 521
Annuities	98	94	117	–	309
Cell captives	–	–	2 105	–	2 105
International	–	–	–	503	503

Restated 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public sector¹ Rm	International Rm	Total Rm
New business premiums	18 726	2 450	7 773	686	29 635
Recurring premiums	1 283	1 035	1 368	402	4 088
Risk	550	658	575	–	1 783
Savings/investments	733	377	556	–	1 666
Cell captives	–	–	237	–	237
International	–	–	–	402	402
Single premiums	17 443	1 415	6 405	284	25 547
Savings/investments	16 787	277	4 283	–	21 347
Annuities	656	1 138	2 122	–	3 916
International	–	–	–	284	284
New business premiums (APE)	3 027	1 177	2 009	430	6 643
Risk	550	658	575	–	1 783
Savings/investments	2 412	405	984	–	3 801
Annuities	65	114	213	–	392
Cell captives	–	–	237	–	237
International	–	–	–	430	430

¹ The Corporate and Public Sector recognises cell captive business as new business at the point where all shareholder and other contractual arrangements have been finalised and signed, even though the first premium may only be received after the end of the current reporting year.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

A. VALUE OF NEW BUSINESS *continued*

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	2016 %	2015 %
Pre-tax investment return		
Equities	12.7	12.1
Properties	10.2	9.6
Government stock	9.2	8.6
Other fixed-interest stocks	9.7	9.1
Cash	8.2	7.6
Risk-free return ²	9.2	8.6
Risk discount rate (RDR)	11.4	10.9
Investment return (before tax) – balanced portfolio ²	11.4	10.8
Expense inflation base rate ³	7.4	6.8

¹ The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.

² The risk-free return was determined with reference to the market interest rate on South African government bonds at the valuation date. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

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

Non-economic

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

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

B. EXPECTED RETURN

The expected return is determined by applying the risk discount rate applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year. The expected return on new business 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 30.06.2016			Restated 12 months to 30.06.2015
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	103	130	233	381
Mortality and morbidity ¹	214	16	230	365
Terminations, premium cessations and policy alterations ²	(109)	120	11	(75)
Expense variance ³	(52)	–	(52)	(101)
Other ⁴	50	(6)	44	192
Metropolitan Retail	97	26	123	6
Mortality and morbidity ¹	80	8	88	85
Terminations, premium cessations and policy alterations	3	7	10	(20)
Expense variance ³	(9)	–	(9)	(61)
Other ⁴	23	11	34	2
Corporate and Public Sector	(178)	(62)	(240)	27
Mortality and morbidity ⁵	(258)	–	(258)	24
Terminations ⁶	13	(66)	(53)	9
Expense variance ³	(94)	(4)	(98)	(67)
FNB Life – share of profits	37	–	37	38
Other ^{4,7}	124	8	132	23
International	(26)	54	28	119
Mortality and morbidity ^{1,8}	89	50	139	202
Terminations, premium cessations and policy alterations	(13)	(5)	(18)	(11)
Expense variance ³	(100)	1	(99)	(86)
Other	(2)	8	6	14
Shareholder Capital³	(232)	–	(232)	(11)
Opportunity cost of required capital	–	(42)	(42)	(21)
Total operating experience variances	(236)	106	(130)	501

¹ Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.

² Better than expected termination experience on whole life insurance contracts as well as clients choosing lower fee products.

³ Overall experience was worse than expected due to proportionally higher internal cost allocations to covered segments in line with the new client-centric model. This is offset by lower non-covered expenses. Refer to note N for further detail.

⁴ Various smaller items including credit-enhancing activities.

⁵ The negative variance is a result of disability-in-payment experience.

⁶ Higher than expected terminations on risk business.

⁷ Includes a release of discretionary liabilities held in respect of data and systems no longer deemed necessary following completion of investigations.

⁸ Higher expenses than assumed partly offset by morbidity profits on health businesses.

F. DEVELOPMENT EXPENSES

Business development expenses within Momentum Retail and Metropolitan Retail.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

G. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2016			Restated 12 months to 30.06.2015
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	(104)	(22)	(126)	63
Mortality and morbidity assumptions ¹	198	(174)	24	235
Termination assumptions ²	(124)	156	32	(19)
Renewal expense assumptions	77	17	94	(28)
Holding company expenses ³	(228)	(97)	(325)	–
Modelling, methodology and other changes	(27)	76	49	(125)
Metropolitan Retail	68	14	82	60
Mortality and morbidity assumptions ⁴	265	6	271	95
Termination assumptions	7	(37)	(30)	(21)
Renewal expense assumptions	(45)	(1)	(46)	30
Holding company expenses ³	(397)	52	(345)	–
Modelling, methodology and other changes ⁵	238	(6)	232	(44)
Corporate and Public Sector	(124)	(609)	(733)	(104)
Mortality and morbidity assumptions ⁶	66	(129)	(63)	(81)
Termination assumptions	–	6	6	63
Renewal expense assumptions ⁷	(99)	(36)	(135)	(155)
Holding company expenses ³	56	(281)	(225)	–
Modelling, methodology and other changes ⁸	(147)	(169)	(316)	69
International	(20)	(95)	(115)	86
Mortality and morbidity assumptions	10	33	43	48
Termination assumptions	(2)	(20)	(22)	(4)
Renewal expense assumptions ³	(34)	1	(33)	22
Modelling, methodology and other changes ⁹	6	(109)	(103)	20
Shareholder Capital	(29)	(18)	(47)	(111)
Methodology change: cost of required capital	–	(65)	(65)	(11)
Total operating assumption changes	(209)	(795)	(1 004)	(17)

¹ Refinement of the mortality valuation and reinsurance basis.

² Strengthening of the persistency assumptions mainly on risk business.

³ Allowance for increased cost allocation to covered business. Refer to note N.

⁴ Allowance for better than assumed mortality on risk business.

⁵ Introduction of the risk product tax fund partially offset by modelling and methodology changes.

⁶ Strengthening of the mortality and morbidity basis.

⁷ Impact of lower than expected sales volumes on expense recoveries.

⁸ Various modelling and methodology changes, including refinements to disability-in-payment, annuity business as well as Guardrisk Life assumptions.

⁹ Valuation modelling and methodology changes including updating for the expected new taxation basis in Lesotho.

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2016 Rm	12 months to 30.06.2015 Rm
Investment income	680	618
Capital appreciation and other	246	77
Preference share dividends paid and change in fair value of preference shares	(33)	(31)
Investment return on adjusted net worth	893	664

I. INVESTMENT VARIANCES

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

J. ECONOMIC ASSUMPTION CHANGES

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

K. EXCHANGE RATE MOVEMENTS

The impact of foreign currency movements on International covered businesses.

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

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

M. CHANGES IN SHARE CAPITAL

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

N. HOLDING COMPANY EXPENSES

Certain expenses previously accounted for as recurring shareholder expenses (disclosed as a negative write-up to the directors' value for MMI Holdings) have been charged to expenses within the SA covered business. These two changes mostly offset resulting in a slight increase in Embedded Value. The new expense methodology was not implemented as an opening basis change resulting in the expense variance for covered business being worse than expected and the non-covered experience being better than expected.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2016

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 – 30.06.2016	In-force business				New business written		
	Adjusted net worth Rm	Net VIF Rm	Gross VIF Rm	Cost of required capital ³ Rm	Net VNB Rm	Gross VNB Rm	Cost of required capital ³ Rm
Base value	14 740	21 668	24 812	(3 144)	850	1 030	(180)
1% increase in risk discount rate		19 959	23 493	(3 534)	698	891	(193)
% change		(8)	(5)	12	(18)	(13)	7
1% reduction in risk discount rate		23 621	26 329	(2 708)	1 023	1 187	(164)
% change		9	6	(14)	20	15	(9)
10% decrease in future expenses		22 947	26 091	(3 144)	975	1 155	(180)
% change ¹		6	5	–	15	12	–
10% decrease in lapse, paid-up and surrender rates		22 468	25 613	(3 145)	1 013	1 207	(194)
% change		4	3	–	19	17	8
5% decrease in mortality and morbidity for assurance business		23 194	26 366	(3 172)	1 010	1 190	(180)
% change		7	6	1	19	16	–
5% decrease in mortality for annuity business		21 368	24 483	(3 115)	841	1 021	(180)
% change		(1)	(1)	(1)	(1)	(1)	–
1% reduction in gross investment return, inflation rate and risk discount rate	14 760	22 275	25 369	(3 094)	924	1 104	(180)
% change ²	–	3	2	(2)	9	7	–
1% reduction in inflation rate		22 457	25 601	(3 144)	928	1 108	(180)
% change		4	3	–	9	8	–
10% fall in market value of equities and properties	14 368	20 560	23 640	(3 080)			
% change	(3)	(5)	(5)	(2)			
10% reduction in premium indexation take-up rate		21 357	24 492	(3 135)	811	991	(180)
% change		(1)	(1)	–	(5)	(4)	–
10% decrease in non-commission-related acquisition expenses					949	1 129	(180)
% change					12	10	–
1% increase in equity/property risk premium		22 021	25 160	(3 139)	889	1 069	(180)
% change		2	1	–	5	4	–

¹ No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.

² Bonus rates are assumed to change commensurately.

³ The change in the value of the cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of MMI Holdings Ltd (the company) and its subsidiaries (collectively MMI or the group) for the year ended 30 June 2016.

NATURE OF ACTIVITIES

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

CORPORATE EVENTS

Listed debt

MMI Group Ltd (MMIGL) listed new instruments to the total value of R1 250 million on the JSE on 6 August 2015. On 15 September 2015, R1 000 million of unsecured subordinated notes previously issued by MMIGL were redeemed. The instruments are unsecured subordinated callable notes. Refer to notes 18 and 44 for more details.

Minority buyout

In May 2016, MMI acquired the remaining stake in UBA Metropolitan (50%) for R248 million. From an IFRS perspective the 50% acquired is carried at R144 million which excludes any goodwill or value of intangibles, and therefore resulted in a loss of R104 million, which was recorded in equity. This had no impact on earnings.

Sale of business

The group has signed a sale agreement to sell the FNB Life business to FirstRand Life Assurance Ltd. The transaction is awaiting FSB approval for the S37 transfer.

PRESENTATION OF FINANCIAL STATEMENTS

The consolidated statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee), the Listings Requirements of the JSE and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the group have been applied consistently to all years presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on page 122, including changes in estimates that are an integral part of the insurance business.

Segmental information

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

CORPORATE GOVERNANCE

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

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As part of running a business, the group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The group had no material capital commitments at 30 June 2016 other than what is disclosed in note 39.

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 other comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R2 142 million (2015: R2 857 million) and R2 101 million (2015: R2 885 million) respectively. Group diluted core headline earnings were R3 206 million (2015: R3 836 million) and diluted core headline earnings per share 199.9 cents (2015: 239.2 cents). Refer to note 36 for a reconciliation of earnings to core headline earnings.

RESULTS OF OPERATIONS *continued*

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	2016		Restated 2015	
	Rm	% of total	Rm	% of total
Momentum Retail	1 600	50	1 756	46
Metropolitan Retail	667	21	604	16
Corporate and Public Sector	617	19	861	22
International	28	1	152	4
Shareholder Capital	294	9	463	12
Total per segmental report	3 206	100	3 836	100

SUBSIDIARIES AND ASSOCIATES

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

SHARE CAPITAL

Share issue

During the current year 1 883 435 (2015: 2 147 055) A3 preference shares were converted into ordinary shares. Refer to note 13 for more details. There were no share issues or share repurchases in the current year.

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 for more details.

MMIGL preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 13.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2016 cents per share	2015 cents per share
Interim – March	65	63
Final – September	92	92
Total	157	155

The group is committed to maintaining a good dividend payout ratio, evidenced by the willingness to drop the current year dividend cover to below the targeted dividend cover ratio of between 1.5 and 1.7 times. Despite the reduction in earnings during the year, the strong capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity, supports MMI's ability to declare a dividend that is marginally higher than the prior year.

On 6 September 2016, a gross final dividend of 92 cents per ordinary share was declared, resulting in a total dividend of 157 cents per share. The dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the company at the close of business on Friday, 30 September 2016, and will be paid on Monday, 3 October 2016. The dividend will be subject to local dividend withholding tax at a rate of 15% unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. This will result in a net final dividend of 78.2 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Tuesday, 27 September 2016. The shares will trade ex dividend from the start of business on Wednesday, 28 September 2016. Share certificates may not be dematerialised or rematerialised between Wednesday, 28 September 2016 and Friday, 30 September 2016, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 573 834 190. 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 R20.1 million (2015: R21.3 million) (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares as determined by the company's Memorandum of Incorporation.

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

The A3 MMI Holdings Ltd preference shares are redeemable in June 2017 at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Refer to note 19.1 for more details.

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 247.

DIRECTORATE, SECRETARY AND AUDITOR

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

	Appointments	Retirements
Ms M Vilakazi	1 July 2015	
Mr SE Nxasana		30 September 2015
Mr P Cooper	20 November 2015	
Mr L Crouse		31 March 2016
Mr W Krzychylkiewicz (<i>alternate to Mr P Cooper</i>)	21 July 2016	

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 48 and 49 in the integrated report.

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

DIRECTORS' INTEREST

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

KTH, of which Mr V Nkonyeni is an executive director, had the following strategic empowerment holdings in the group at 30 June 2016:

- A 7.1% interest in MMI Holdings Ltd (30 million MMI Holdings Ltd preference shares and 84 million listed MMI Holdings Ltd ordinary shares).
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares 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.
- The 21.2% interest in Eris Property Group (Pty) Ltd was sold to MMI in August 2015 for R145 million.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2016 are set out below:

	Direct Beneficial '000	Indirect Beneficial '000	Total 2016 '000	Total 2015 '000
Listed				
Executive directors	64	6 276	6 340	379
Non-executive directors	434	2 152	2 586	2 074
	498	8 428	8 926	2 453

Refer to page 247 for percentage of issued shares held by directors.

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

No material changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE is set out on pages 61 and 62 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd shares at 30 June 2016 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2016 '000	Total 2015 '000
Listed				
Non-executive directors	834	4 423	5 257	1 404

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.09% (2015: 0.02%). The executive directors do not hold any RMI Holdings Ltd shares.

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries with a one month notice period. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2016 is set out below. The detail in terms of the Listings Requirements of the JSE is set out on pages 68 to 71 in the remuneration report.

	Fees R'000	Annual package R'000	Bonus ¹ R'000	Long-term incentive payments R'000	Pension fund contributions R'000	Ad hoc fees R'000	Total 2016 R'000	Total 2015 R'000
Executive	–	9 078	7 987	11 247	893	–	29 205	80 042
Non-executive	15 923	–	–	–	–	129	16 052	15 920
Total	15 923	9 078	7 987	11 247	893	129	45 257	95 962

¹ Bonus payments relate to the 2015 financial year's bonus.

BORROWING POWERS

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

EVENTS AFTER YEAR-END

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

STATUTORY EXCESS

AT 30 JUNE 2016

	2016 Rm	2015 Rm
REPORTING BASIS		
Group excess per reporting basis	24 109	24 547
Net assets – other businesses	(2 939)	(3 256)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	(3 471)	(3 826)
Excess – long-term insurance business, net of non-controlling interests¹	17 699	17 465
Disregarded assets ²	(983)	(1 010)
Difference between statutory and published valuation methods	(582)	(839)
Write-down of subsidiaries and associates for statutory purposes	(1 246)	(1 210)
Unsecured subordinated debt	3 557	3 320
Consolidation adjustments	(53)	141
Statutory excess – long-term insurance business	18 392	17 867
Capital adequacy requirement (CAR) ³	6 238	6 639
Ratio of long-term insurance business excess to CAR (times)	2.9	2.7
Discretionary margins	12 702	13 620

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

² Disregarded assets are those as defined in the South African Long-term Insurance Act, 52 of 1998, and are only applicable to South African long-term insurance companies. Adjustments are also made for the international insurance companies from reporting excess to statutory excess as required by their regulators. It includes Sage intangible assets of R491 million (2015: R518 million).

³ Aggregation of separate companies' capital adequacy requirements (CARs), with no assumption of diversification benefits.

INTRODUCTION

ABOUT US

PERFORMANCE

GOVERNANCE

REMUNERATION

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
ASSETS			
Intangible assets	12 433	13 153	1
Owner-occupied properties	3 112	3 030	2
Property and equipment	432	353	3
Investment properties	7 422	7 212	4
Investments in associates	680	145	5
Employee benefit assets	445	408	21.1
Financial instruments			
Securities designated at fair value through income	373 630	365 727	6.1
Investments in associates designated at fair value through income	10 499	12 362	6.2
Derivative financial instruments	1 977	2 033	6.3
Available-for-sale	125	208	6.4
Held-to-maturity	122	73	
Loans and receivables	7 615	7 855	7
Reinsurance contract assets	5 092	3 046	8
Deferred income tax	279	287	9
Properties under development	187	330	10
Insurance and other receivables	4 497	4 080	11
Current income tax assets	537	365	25.1
Cash and cash equivalents	29 148	26 174	12
Non-current assets held for sale	470	–	24
Total assets	458 702	446 841	
EQUITY			
Equity attributable to owners of the parent	24 109	24 547	
Share capital	13 856	13 804	13
Other components of equity	1 955	1 866	14
Retained earnings	8 298	8 877	
Non-controlling interests	290	501	
Total equity	24 399	25 048	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	107 093	104 746	15.1
Short-term insurance contracts	6 978	6 553	15.2
Capitation contracts	22	30	15
Financial instruments			
Investment contracts	257 985	246 490	
– with discretionary participation features (DPF)	25 195	26 134	16.1
– designated at fair value through income	232 790	220 356	16.2
Designated at fair value through income	38 374	39 720	18
Derivative financial instruments	2 097	2 111	6.3
Amortised cost	1 058	1 092	19
Reinsurance contract liabilities	973	659	20
Deferred income tax	3 812	4 351	9
Employee benefit obligations	1 452	1 735	21.2
Other payables	14 384	14 062	22
Provisions	43	78	23
Current income tax liabilities	32	166	25.1
Total liabilities	434 303	421 793	
Total equity and liabilities	458 702	446 841	

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
Insurance premiums	38 589	35 297	
Insurance premiums ceded to reinsurers	(9 618)	(7 901)	
Net insurance premiums	28 971	27 396	26
Fee income	7 679	7 355	27
Investment contracts	2 471	2 225	
Trust and fiduciary services	1 892	1 842	
Health administration	1 945	2 053	
Other fee income	1 371	1 235	
Investment income	17 522	15 559	28
Net realised and fair value gains	11 824	16 248	29
Net income	65 996	66 558	
Insurance benefits and claims	32 532	28 636	
Insurance claims recovered from reinsurers	(5 923)	(4 026)	
Net insurance benefits and claims	26 609	24 610	30
Change in actuarial liabilities and related reinsurance	(674)	(869)	
Change in long-term insurance contract liabilities	354	(2 069)	15.1
Change in short-term insurance contract liabilities	(71)	(139)	15.2
Change in investment contracts with DPF liabilities	(940)	728	16.1
Change in reinsurance assets	(331)	154	8
Change in reinsurance liabilities	314	457	20
Fair value adjustments on investment contract liabilities	16 205	16 039	16.2
Fair value adjustments on collective investment scheme liabilities	(153)	2 457	
Depreciation, amortisation and impairment expenses	1 408	1 326	31
Employee benefit expenses	5 341	5 922	32
Sales remuneration	5 304	5 071	33
Other expenses	6 695	5 806	34
Expenses	60 735	60 362	
Results of operations	5 261	6 196	
Share of profit of associates	18	4	5
Finance costs	(937)	(792)	35
Profit before tax	4 342	5 408	
Income tax expense	(2 164)	(2 431)	25.2
Earnings for year	2 178	2 977	
Attributable to:			
Owners of the parent	2 142	2 857	36
Non-controlling interests	36	120	
	2 178	2 977	
Basic earnings per ordinary share (cents)	137.6	183.5	36
Diluted earnings per ordinary share (cents)	135.9	180.5	36

INTRODUCTION

ABOUT US

PERFORMANCE

GOVERNANCE

REMUNERATION

FINANCIAL STATEMENTS

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
Earnings for year	2 178	2 977	
Other comprehensive income, net of tax	83	68	
Items that may subsequently be reclassified to income	(24)	6	
Exchange differences on translating foreign operations	(27)	1	14
Available-for-sale financial assets	3	5	14
Items that will not be reclassified to income	107	62	
Land and building revaluation	124	118	14
Remeasurements of post-employee benefit funds	(1)	(20)	14
Income tax relating to items that will not be reclassified	(16)	(36)	14
Total comprehensive income for year	2 261	3 045	
Total comprehensive income attributable to:			
Owners of the parent	2 193	2 926	
Non-controlling interests	68	119	
	2 261	3 045	

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2014	9	13 782	1 802	9 141	24 734	480	25 214	
Total comprehensive income	–	–	69	2 857	2 926	119	3 045	
Income statement	–	–	–	2 857	2 857	120	2 977	
Other comprehensive income	–	–	69	–	69	(1)	68	
Dividend paid	–	–	–	(3 094)	(3 094)	(23)	(3 117)	
BEE cost	–	–	4	–	4	–	4	
Increase in treasury shares held on behalf of contract holders	–	(7)	–	–	(7)	–	(7)	
Transfer from other reserves to retained earnings	–	–	(9)	9	–	–	–	14
Transactions with owners ¹	–	–	–	–	–	(170)	(170)	
Transactions with non-controlling interests	–	–	–	(15)	(15)	–	(15)	
Puttable non-controlling interests ¹	–	–	–	(21)	(21)	–	(21)	
Business combinations	–	–	–	–	–	95	95	
Conversion of preference shares	–	20	–	–	20	–	20	
Balance at 1 July 2015	9	13 795	1 866	8 877	24 547	501	25 048	
Total comprehensive income	–	–	51	2 142	2 193	68	2 261	
Income statement	–	–	–	2 142	2 142	36	2 178	
Other comprehensive income	–	–	51	–	51	32	83	
Dividend paid	–	–	–	(2 475)	(2 475)	(60)	(2 535)	
BEE cost	–	–	4	–	4	–	4	
Decrease in treasury shares held on behalf of contract holders	–	35	–	–	35	–	35	
Transfer to other reserves from retained earnings	–	–	32	(32)	–	–	–	14
Transactions with non-controlling interests	–	–	–	(214)	(214)	(219)	(433)	
Conversion of preference shares	–	17	–	–	17	–	17	
Change in non-distributable reserves	–	–	2	–	2	–	2	
Balance at 30 June 2016	9	13 847	1 955	8 298	24 109	290	24 399	

¹ Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to embedded value. In terms of IFRS, the group recognised a financial liability of R111 million in the prior year, being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and in June 2015 derecognised the non-controlling interest (R90 million) due to the financial liability recognised above, which is in line with its selected accounting policy. The value of the liability is R104 million at 30 June 2016.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(3 740)	(9 605)	37.1
Interest received	12 345	11 410	
Dividends received	4 122	3 193	
Income tax paid	(3 017)	(2 752)	37.2
Interest paid	(868)	(741)	37.3
Net cash inflow from operating activities	8 842	1 505	
Cash flow from investing activities			
Acquisition of subsidiaries	–	(745)	38
Disposal of non-current assets held for sale	–	17	
Acquisition of associates	(485)	–	
Disposal of associates	13	–	
Loans advanced to related parties	(77)	(4)	
Dividends from associates	–	1	
Purchase of owner-occupied properties	(33)	(9)	
Disposal of owner-occupied properties	12	20	
Purchase of property and equipment	(303)	(227)	
Disposal of property and equipment	48	14	
Purchase of intangible assets	(296)	(338)	
Proceeds from sale of subsidiary	70	–	
Net cash outflow from investing activities	(1 051)	(1 271)	
Cash flow from financing activities			
Finance leases repaid	–	(1)	
Other equity transactions	4	–	
Decrease of treasury shares held on behalf of contract holders	35	–	
Transactions with minority shareholders	(433)	(168)	
Increase in borrowings	5 280	169	
Repayment of borrowings	(7 418)	(568)	
Subordinated call notes issued	1 250	750	
Subordinated call notes repaid	(1 000)	–	
Dividends paid to equity holders	(2 475)	(3 094)	
Dividends paid to non-controlling interest shareholders	(60)	(23)	
Net cash outflow from financing activities	(4 817)	(2 935)	
Net cash flow	2 974	(2 701)	
Cash resources and funds on deposit at beginning	26 174	28 875	
Cash resources and funds on deposit at end	29 148	26 174	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	29 148	26 174	12
	29 148	26 174	

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 and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- owner-occupied and investment properties
- investments in associates designated at fair value through income
- financial assets designated at fair value through income, derivative financial assets and available-for-sale financial assets
- investment contract liabilities designated at fair value through income, financial liabilities designated at fair value through income and derivative financial liabilities
- liabilities for cash-settled share-based payment arrangements

Other measurement basis

- insurance contracts, investment contracts with discretionary participation features (DPF) and reinsurance contracts valued using the *financial soundness valuation* basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- short-term insurance contracts valued using Directive 169 of 2011 – Prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-term insurers
- employee benefit obligations measured using the projected unit credit method
- investments in associates measured using the equity method of accounting or carried at fair value
- non-current assets and liabilities held for sale measured at the lower of carrying value or fair value less cost to sell

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. There are areas of complexity involving a higher degree of judgement

and areas where assumptions and estimates are significant to the consolidated financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in a summary on page 122.

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

Published standards, amendments and interpretations effective for June 2016 financial period

There were no new standards or new amendments to standards and interpretations effective in the current period.

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 28 Investment entities (amendments) – Applying the consolidation exception (effective from annual periods beginning on or after 1 January 2016).
- IFRS 11 (amendments) – Joint arrangements (effective from annual periods beginning on or after 1 January 2016).
- IAS 1 (amendments) – Disclosure initiative (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (amendments) – Clarification of acceptable methods of depreciation and amortisation (effective from annual periods beginning on or after 1 January 2016).
- IAS 27 (amendment) – Equity method in separate financial statements (effective from annual periods beginning on or after 1 January 2016).
- IAS 7 (amendment) – Disclosure initiative (effective from annual periods beginning on or after 1 January 2017).
- IAS 12 (amendment) – Recognition of deferred tax assets for unrealised losses (effective from annual periods beginning on or after 1 January 2017).
- IFRS 15 – Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018).
- IFRS 2 (amendment) – Classification and measurement of share-based payment transactions (effective from annual periods beginning on or after 1 January 2018).
- IFRS 16 – Leases (effective from annual periods beginning on or after 1 January 2019).
- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture (postponed).

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*

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

Improvements project amendments

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

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

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

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

CONSOLIDATION

Subsidiaries

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

Initial measurement

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

Disposals

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

Transactions with non-controlling interest shareholders

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

Measurement – MMI Holdings Ltd separate financial statements

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

Associates

Associates are all entities over which the group has *significant influence* but not control. The group's investment in associates includes goodwill, identified on acquisition, net of any

accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the group.

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

Measurement

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

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

Impairment

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

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates

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

Transactions and balances

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

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

Subsidiary undertakings

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

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

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

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

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

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

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

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

INTANGIBLE ASSETS *continued*

Goodwill *continued*

Impairment

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

Value of in-force business acquired

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

Measurement

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

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

Impairment

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

Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the group expects to recognise the related revenue, which is between three and 10 years.

Impairment

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

Deferred acquisition costs (DAC)

On long-term investment business

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

On short-term insurance business

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

Impairment

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

Brand and broker network

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

Measurement

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

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

Impairment

The brand and broker networks are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, being the value in use.

Computer software

Recognition and measurement

Acquired computer software

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

Internally developed computer software

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

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

Impairment

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

OWNER-OCCUPIED PROPERTIES

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

Measurement

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

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

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

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

Depreciation

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

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

Disposals

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

PROPERTY AND EQUIPMENT

Improvements to leasehold properties

Measurement

Improvements to leasehold properties are measured at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated over the shorter of their respective lease periods and estimated useful lives.

Impairment

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

PROPERTY AND EQUIPMENT *continued*

Equipment

Measurement

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation

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

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

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

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.

Derecognition

Equipment is derecognised on disposal or when no future economic benefits are expected from use. Gains and losses on derecognition of assets are determined by comparing proceeds with carrying amounts and are included in the income statement.

INVESTMENT 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. Investment properties include property under development for future use as investment property.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different

types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis. Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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

Transfers to and from investment properties

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

Properties held under operating leases

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

Gains and losses

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

FINANCIAL ASSETS

Classification

The group classifies its financial assets into the following categories:

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

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

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

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

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

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

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

- **Loans and receivables**

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

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

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

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

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

Recognition and measurement

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

Purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the financial assets. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Transaction costs that are not recognised as part of the financial asset are expensed in the income statement in net realised and fair value gains. Financial assets at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are

recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment.

The fair value of financial assets traded in active markets is based on quoted market prices at the reporting date. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the group establishes fair value by using valuation techniques disclosed in 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. Increases in fair value of equity instruments after impairment are recognised in other comprehensive income.

Debt securities

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

- **Financial assets carried at amortised cost – loans and receivables**

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

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

FINANCIAL ASSETS *continued*

Impairment of financial assets *continued*

- Financial assets carried at amortised cost – loans and receivables *continued*

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

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

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

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

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

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

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy

for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivatives that do not qualify for hedge accounting

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

PROPERTIES UNDER DEVELOPMENT

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

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

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

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

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

Issue costs

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

Treasury shares

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

DIVIDENDS PAID

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

PUTTABLE NON-CONTROLLING INTERESTS

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

Recognition and measurement

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

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

LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS

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

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

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

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

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

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these

arrangements, only fee income, investment income and net realised and fair value gains are included in the group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

Insurance contracts

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

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

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

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

Contracts with discretionary participation features

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

Long-term insurance contracts and investment contracts with DPF

Measurement

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

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

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

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, *bonus stabilisation accounts* (BSAs) are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and Group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- Provision is made for the estimated cost of incurred but yet reported (IBNR) claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported are disclosed in other payables.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit *compulsory margins* as required by SAP 104 – Calculation of the value of the assets, liabilities and 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.
- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

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

Long-term 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.

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

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

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

Impairment of reinsurance assets

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

Long-term insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

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 IBNR claims at the reporting date and related internal and external claims-handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the membership profile according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

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

Capitation premiums

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

Capitation benefits incurred

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

Capitation benefits incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from covered members for co-payments and savings plan accounts; and

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

Investment contracts

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

Measurement

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

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

For investment contracts without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the group's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

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

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.

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

Investment contracts *continued*

Deferred revenue liability (DRL)

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

Deferred acquisition costs

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

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

Short-term insurance contracts

Premiums

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

Claims

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

Unearned premium provision

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

Liability adequacy test

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

Deferred acquisition costs

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

Outstanding insurance contract claims

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

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

FINANCIAL LIABILITIES

Recognition and measurement

The group classifies its financial liabilities into the following categories:

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

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

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

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

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

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

- eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
- managed, with their performance being evaluated on a fair value basis; or
- a financial instrument that includes a significant embedded derivative 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 through income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments designated at fair value through income.

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

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 that are neither held for trading nor designated at fair value are measured at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the *effective interest rate method*.

Convertible redeemable preference shares and convertible bonds

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

Other payables

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

Derecognition of financial liabilities

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

DEFERRED INCOME TAX

Measurement

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

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

Deferred tax related to fair value remeasurement of available-for-sale financial assets and post-employment benefit obligations, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

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

Offsetting

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

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 (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

LEASES: ACCOUNTING BY LESSEE

Finance leases

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

Measurement

- **Asset**
Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.
- **Liability**
The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

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

LEASES: ACCOUNTING BY LESSOR

Operating leases

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

PROVISIONS

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

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

Onerous contracts

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

CONTINGENT LIABILITIES

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

EMPLOYEE BENEFITS

Pension and provident fund obligations

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

- *Defined contribution funds*

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

- *Defined benefit funds*

A defined benefit scheme is a fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

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

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

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

Interest is recognised by applying the discount rate to the net defined benefit asset or liability and is recognised in the income statement. Other expenses related to the defined benefit plans are also recognised in the income statement.

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

Post-retirement medical aid obligations

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

EMPLOYEE BENEFITS *continued*

Termination benefits

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

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

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

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

Compensation plans valued on the projected unit credit method

The group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable *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 for the benefit of policyholders are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

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

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

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

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

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

Contract administration

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

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

Trust and fiduciary fees received

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

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered.

Cell captive fee income includes management fees.

Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

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

Investment income

Interest income

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

Dividend income

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

Rental income

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

EXPENSE RECOGNITION

Expenses

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

Finance costs

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

SEGMENTAL REPORTING

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

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 (also applicable to reinsurance contracts) – notes 8, 17 and 20
- Valuation assumptions for financial instruments – note 51

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

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

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

- **Momentum Retail:** Momentum Retail's purpose is to enhance the lifetime financial wellness of people, their families, communities and businesses. The focus is on the upper retail segment and the small business segment in South Africa, offering innovative and appropriate wealth creation, risk and savings solutions. The group's short-term insurance and open medical scheme solutions are also marketed under the Momentum Retail brand.
- **Metropolitan Retail:** Metropolitan Retail's purpose is to enhance the lifetime financial wellness of people, their families and their communities through empowerment and education. The focus is on the entry-level market in South Africa, offering savings, income generation, risk and funeral products and solutions.
- **Corporate and Public Sector:** This segment's purpose is to enhance the lifetime financial wellness of businesses, employees, customers and their communities. The segment focuses on the strategic issues that affect institutions and their employees.

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

- **International:** The International segment manages MMI's global expansion holistically in order to enhance the lifetime financial wellness of people, their communities and their businesses in selected segments of countries where MMI is represented. The results of any strategic initiatives are reported under Shareholder Capital.
- **Shareholder Capital:** This segment is responsible for the management of the capital base of the group. It also includes the incubation of strategic initiatives until they are transferred to the relevant operating segment.

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

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

A reconciliation of diluted core headline earnings to earnings is provided in note 36.

Reconciliation of management information to IFRS

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

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

2016	Momentum Retail Rm	Metropolitan Retail Rm
Revenue		
Net insurance premiums	25 767	6 816
Recurring premiums	9 278	5 558
Single premiums	16 489	1 258
Fee income	3 599	209
External fee income	3 068	179
Intergroup fee income	531	30
Expenses		
Net payments to contract holders		
External payments	25 067	6 037
Other expenses	5 792	2 325
Sales remuneration	2 156	967
Administration expenses ²	2 757	1 191
Amortisation due to business combinations and impairments	–	–
Cell captive business	–	–
Direct property expenses	–	–
Asset management and other fee expenses	182	103
Holding company expenses	–	–
Intergroup expenses	697	64
Income tax	483	321
Diluted core headline earnings	1 600	667
Operating profit	2 172	940
Tax on operating profit	(628)	(273)
Investment income	72	–
Tax on investment income	(16)	–
Covered	1 563	694
Non-covered	37	(27)
	1 600	667
Actuarial liabilities	195 346	32 942

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

² Momentum Retail administration expenses includes R79 million relating to Momentum SP Reid.

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

Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items ¹ Rm	IFRS total Rm
26 608	3 921	–	63 112	(34 141)	28 971
15 170	3 322	–	33 328	(8 720)	24 608
11 438	599	–	29 784	(25 421)	4 363
4 641	365	759	9 573	(1 894)	7 679
3 986	280	544	8 057	(378)	7 679
655	85	215	1 516	(1 516)	–
30 568	2 292	–	63 964	(37 355)	26 609
6 063	1 741	1 342	17 263	1 485	18 748
1 537	647	4	5 311	(7)	5 304
3 152	824	1 356	9 280	157	9 437
12	–	72	84	823	907
203	–	–	203	1 178	1 381
–	–	–	–	317	317
437	13	80	815	533	1 348
–	–	54	54	–	54
722	257	(224)	1 516	(1 516)	–
1 068	134	299	2 305	(141)	2 164
617	28	294	3 206	–	3 206
771	45	(358)	3 570	–	3 570
(233)	(42)	(10)	(1 186)	–	(1 186)
108	29	849	1 058	–	1 058
(29)	(4)	(187)	(236)	–	(236)
345	206	403	3 211	–	3 211
272	(178)	(109)	(5)	–	(5)
617	28	294	3 206	–	3 206
129 856	11 367	2 567	372 078	–	372 078

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

Restated 2015	Momentum Retail Rm	Metropolitan Retail Rm
Revenue		
Net insurance premiums	24 676	6 910
Recurring premiums	8 992	5 495
Single premiums	15 684	1 415
Fee income	3 452	95
External fee income	2 962	95
Intergroup fee income	490	–
Expenses		
Net payments to contract holders		
External payments	24 088	4 967
Other expenses	5 650	2 070
Sales remuneration	2 200	893
Administration expenses	2 483	1 135
Amortisation due to business combinations and impairments	17	–
Cell captive business	–	–
Direct property expenses	–	–
Asset management and other fee expenses	129	–
Holding company expenses	–	–
Intergroup fee income	821	42
Diluted core headline earnings	1 756	604
Operating profit	2 423	876
Tax on operating profit	(697)	(272)
Investment income	42	–
Tax on investment income	(12)	–
Covered	1 725	604
Non-covered	31	–
	1 756	604
Actuarial liabilities	186 493	32 937

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

² The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 000 million, and the total of such non-current assets located in other countries is R1 233 million.

Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items ¹ Rm	IFRS total Rm
29 921	3 563	–	65 070	(37 674)	27 396
14 345	3 215	–	32 047	(8 282)	23 765
15 576	348	–	33 023	(29 392)	3 631
4 068	362	1 120	9 097	(1 742)	7 355
3 644	257	762	7 720	(365)	7 355
424	105	358	1 377	(1 377)	–
27 500	1 953	–	58 508	(33 898)	24 610
5 522	1 586	1 563	16 391	1 734	18 125
1 426	544	15	5 078	(7)	5 071
3 172	837	1 316	8 943	724	9 667
12	–	81	110	891	1 001
236	–	–	236	961	1 197
–	–	–	–	105	105
201	7	243	580	437	1 017
–	–	67	67	–	67
475	198	(159)	1 377	(1 377)	–
861	152	463	3 836	–	3 836
1 170	179	(186)	4 462	–	4 462
(344)	(33)	53	(1 293)	–	(1 293)
48	6	775	871	–	871
(13)	–	(179)	(204)	–	(204)
487	266	550	3 632	–	3 632
374	(114)	(87)	204	–	204
861	152	463	3 836	–	3 836
125 177	10 095	3 117	357 819	–	357 819

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	Restated 2015 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	25 067	24 088
Death and disability claims	4 338	3 694
Maturity claims	6 964	7 547
Annuities	4 945	4 692
Withdrawal benefits	221	80
Surrenders	9 341	8 523
Short-term insurance	469	440
Health claims	133	116
Reinsurance recoveries	(1 344)	(1 004)
Metropolitan Retail	6 037	4 967
Death and disability claims	1 076	1 093
Maturity claims	2 540	1 668
Annuities	677	620
Withdrawal benefits	–	84
Surrenders	1 800	1 560
Reinsurance recoveries	(56)	(58)
Corporate and Public Sector	30 568	27 500
Death and disability claims	6 938	5 084
Maturity claims	1 939	948
Annuities	1 795	1 625
Withdrawal benefits	4 850	3 796
Terminations and disinvestments	15 335	14 613
Short-term insurance	7 112	4 745
Health claims	294	185
Reinsurance recoveries	(7 695)	(3 496)
International	2 292	1 953
Death and disability claims	481	420
Maturity claims	458	371
Annuities	96	99
Withdrawal benefits	225	108
Surrenders	458	498
Terminations	109	90
Short-term insurance	158	104
Health claims	438	393
Reinsurance recoveries	(131)	(130)
Total payments to contract holders	63 964	58 508
Reconciling items ¹	(37 355)	(33 898)
Net insurance benefits and claims (refer to note 30)	26 609	24 610

¹ Relates mainly to payments to investment contract holders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
1 INTANGIBLE ASSETS		
Goodwill	1 237	1 333
Value of in-force business acquired	4 844	5 168
Customer relationships	2 061	2 467
Brands	886	948
Broker network	303	337
Deferred acquisition costs on long-term investment business	2 202	2 092
Deferred acquisition costs on short-term insurance business	78	61
Computer software	822	747
	12 433	13 153
1.1 Goodwill		
Cost	1 402	1 394
Accumulated impairment	(165)	(61)
Carrying amount	1 237	1 333
Carrying amount at beginning	1 333	1 088
Business combinations (refer to note 38)	–	234
Impairment charges	(104)	–
Exchange differences	8	11
Carrying amount at end	1 237	1 333
Cash-generating units		
Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	170	170
MMI Health – Corporate and Public Sector and Momentum Retail	127	127
Momentum Manager of Managers – Corporate and Public Sector	14	14
Eris Property Group – Shareholder Capital	191	191
Guardrisk – Corporate and Public Sector	567	567
Providence – Corporate and Public Sector	19	19
Cannon – International (refer to note 38)	62	103
Other ¹ (refer to note 38)	87	142
	1 237	1 333

¹ Included in Other is exchange rate differences of R19 million (2015: R11 million) and goodwill relating to smaller acquisitions in the prior year.

Critical accounting estimates and judgements

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

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

Goodwill relating to the Cannon (International segment) and Hello Doctor acquisitions (included in Other above and part of the Shareholders segment) were impaired by R41 million and R63 million respectively during the current year due to losses incurred by these companies.

	2016		2015	
	Risk discount rate	Growth rate	Risk discount rate	Growth rate
Assumptions				
Ex-Metropolitan group	11%	7%	11%	7%
MMI Health	11%	7%	11%	7%
Guardrisk	11%	8%	11%	7%
Cannon	19%	10%	16%	8%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

1 INTANGIBLE ASSETS *continued*

1.1 Goodwill *continued*

Changes in the assumptions relating to the CGUs are not considered to be materially sensitive in the current year or prior year. Eris Property Group uses a price-earnings ratio to calculate the value-in-use of their CGUs. The current year ratio was 8.33 (2015: 8.33).

	2016 Rm	2015 Rm
1.2 Value of in-force business acquired		
<i>Acquisition of insurance and investment contracts with DPF</i>		
Cost	6 782	6 782
Accumulated amortisation	(1 938)	(1 614)
Carrying amount	4 844	5 168
Carrying amount at beginning	5 168	5 498
Amortisation charges	(324)	(330)
Carrying amount at end	4 844	5 168
	To be fully amortised by year:	
<i>The carrying amount is made up as follows:</i>		
Sage – Momentum Retail	2046	706
Momentum Namibia – International	2051	253
Metropolitan/Momentum merger		
Metropolitan Retail	2041	3 110
Corporate and Public Sector	2041	637
International	2041	349
Guardrisk – Corporate and Public Sector	2034	104
Other	9	9
	4 844	5 168

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.

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.

		2016 Rm	2015 Rm
1 INTANGIBLE ASSETS <i>continued</i>			
1.3 Customer relationships			
Cost		4 353	4 335
Accumulated amortisation		(2 287)	(1 863)
Accumulated impairment		(5)	(5)
Carrying amount		2 061	2 467
Carrying amount at beginning		2 467	2 322
Business combinations (refer to note 38)		18	612
Amortisation charges		(424)	(465)
Impairment charges		–	(2)
Carrying amount at end		2 061	2 467
	To be fully amortised by year:		
<i>The carrying amount is made up as follows:</i>			
Metropolitan/Momentum merger			
Employee benefits business – Corporate and Public Sector	2021	656	803
Asset management – Corporate and Public Sector	2016	–	37
Investment contracts – Corporate and Public Sector	2021	552	586
Metropolitan Health Namibia Administrators – International	2019	53	62
Guardrisk – Corporate and Public Sector	2024	235	266
Providence – Corporate and Public Sector	2023	78	89
CareCross – Corporate and Public Sector	2019	220	293
Cannon – International	2020	133	168
Other		134	163
		2 061	2 467

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

		2016 Rm	2015 Rm
1	INTANGIBLE ASSETS <i>continued</i>		
1.4	Brands		
	Cost	1 208	1 208
	Accumulated amortisation	(322)	(260)
	Carrying amount	886	948
	Carrying amount at beginning	948	985
	Business combinations (refer to note 38)	–	25
	Amortisation charges	(62)	(62)
	Carrying amount at end	886	948
		To be fully amortised by year:	
	<i>The carrying amount is made up as follows:</i>		
	Metropolitan brand – Metropolitan Retail (Metropolitan/Momentum merger)	2031 776	831
	Momentum Namibia brand – International	2027 20	22
	Guardrisk brand – Corporate and Public Sector	2034 70	74
	CareCross brand – Corporate and Public Sector	2024 20	21
		886	948
1.5	Broker network		
	Cost	490	490
	Accumulated amortisation	(187)	(153)
	Carrying amount	303	337
	Carrying amount at beginning	337	386
	Amortisation charges	(34)	(49)
	Carrying amount at end	303	337
		To be fully amortised by year:	
	<i>The carrying amount is made up as follows:</i>		
	Metropolitan/Momentum merger – Metropolitan Retail	2016 –	11
	Guardrisk (non-life) – Corporate and Public Sector	2029 231	249
	Guardrisk (life) – Corporate and Public Sector	2034 72	77
		303	337
1.6	Deferred acquisition costs on long-term investment business		
	Carrying amount at beginning	2 092	2 059
	Additions	347	379
	Amortisation charges	(237)	(347)
	Exchange differences	–	1
	Carrying amount at end	2 202	2 092

	2016 Rm	2015 Rm
1 INTANGIBLE ASSETS <i>continued</i>		
1.7 Deferred acquisition costs on short-term insurance business		
Carrying amount at beginning	61	–
Additions	69	105
Amortisation charges	(52)	(44)
Carrying amount at end	78	61
1.8 Computer software		
Cost	1 212	1 005
Accumulated amortisation	(292)	(214)
Accumulated impairment	(98)	(44)
Carrying amount	822	747
Carrying amount at beginning	747	481
Additions	278	338
Business combinations (refer to note 38)	–	84
Amortisation charges	(149)	(138)
Impairment charges	(54)	(17)
Exchange differences	–	(1)
Carrying amount at end	822	747

Internally developed software used by the International and Corporate and Public Sector segment were impaired in the current year as the calculated value-in-use amount was lower than the carrying value. As a result of the strategic decision by management to outsource investment administration in future, investment administration systems were fully impaired by R17 million in the prior year.

Internally developed software

Included in computer software is a carrying value of R451 million (2015: R370 million) representing internally developed software.

Material computer software

The Shareholder Capital segment has computer software of R85 million (2015: R76 million) relating to Momentum Short-term Insurance's line of business system which will be fully amortised by 2026. For impairment testing purposes, a cost of capital of 14% (2015: 13%) was used to present value the future economic benefits of the software. No impairment was required.

Guardrisk (Corporate and Public Sector) has computer software of R72 million (2015: R74 million) relating to cell captive and product administration systems which will be fully amortised by 2024. For valuation purposes a risk discount rate of 11% (2015: 11%) and a growth rate of 8% (2015: 7%) was used. No impairment was required.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
2 OWNER-OCCUPIED PROPERTIES		
Owner-occupied properties – at fair value	3 112	3 030
Historical carrying value – cost model	2 123	2 125
Fair value at beginning	3 030	1 714
Additions	33	9
Disposals	(12)	(20)
Business combinations (refer to note 38)	–	19
Revaluations	135	140
Depreciation charges	(75)	(61)
Impairment charges	(3)	–
Transfer from investment properties	–	1 229
Exchange differences	4	–
Fair value at end	3 112	3 030

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

Critical accounting estimates and judgements

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

Assumptions	Change in fair value			
	Base assumption	Change in assumption	Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	9.0% – 10.0%	10%	118	(97)
Discount rate	14.0% – 15.0%	10%	77	(101)

Capitalisation and discount rates (2015: 8.0% – 12.0% and 13.0% – 16.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the group. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

	2016 Rm	2015 Rm
3 PROPERTY AND EQUIPMENT		
Equipment and leasehold improvements		
Cost	581	497
Accumulated depreciation	(147)	(142)
Accumulated impairment	(2)	(2)
Carrying amount	432	353
Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
Carrying amount at beginning	353	315
Additions	303	227
Disposals	(39)	(14)
Business combinations (refer to note 38)	–	14
Depreciation charges	(178)	(189)
Sale of subsidiaries	(9)	–
Exchange differences	2	–
Carrying amount at end	432	353

	2016 Rm	2015 Rm
4 INVESTMENT PROPERTIES		
<i>At 30 June, investment properties comprised the following property types:</i>		
Industrial	296	302
Shopping malls	3 604	3 667
Office buildings	2 464	2 945
Hotels	244	235
Vacant land	519	98
Other	524	149
Property at valuation	7 651	7 396
Accelerated rental income (refer to note 11)	(229)	(184)
	7 422	7 212
Investment properties under development		
Fair value at beginning	–	–
Capitalised development expenditure	305	–
Transfer from completed properties for redevelopment	458	–
Fair value at end	763	–
Completed properties		
Fair value at beginning	7 212	7 675
Capitalised subsequent expenditure	209	93
Business combinations (refer to note 38)	–	116
Additions	161	277
Disposals	(307)	(103)
Revaluations	354	439
Change in accelerated rental income	(48)	(56)
Sale of subsidiaries	(19)	–
Transfer to owner-occupied properties	–	(1 229)
Transfer to investment properties under development for redevelopment	(458)	–
Transfer to non-current assets held for sale	(470)	–
Exchange differences	25	–
Fair value at end	6 659	7 212

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

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2016, amounting to 43% (2015: 36%) of the portfolio for the group. Eris is responsible for the majority of the internal valuations of the group. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	Base assumption	Change in assumption	Change in fair value	
			Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	9.0% – 10.0%	10%	708	(224)
Discount rate	13.0% – 15.0%	10%	453	(242)

Capitalisation and discount rates (2015: 7.0% – 11.0% and 13.0% – 16.0% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
5 INVESTMENTS IN ASSOCIATES		
Carrying amount at beginning	145	179
Additions	530	2
Disposals	(13)	–
Share of profit	18	4
Dividends paid	–	(1)
Transfer to subsidiary	–	(39)
Carrying amount at end – non-current	680	145

Equity-accounted associates*	Carrying value %** Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
2016					
Aditya Birla Health Insurance Ltd (ABHIL)	49%	446	528	(25)	2
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	46	34	(31)	68
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	23	647	(534)	68
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	88	576	(3)	41
Other		77	***	***	***
		680			18
2015					
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	19	62	–	17
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	91	595	(3)	68
Other		35	***	***	***
		145			4

* All entities' principal place of business is in South Africa unless otherwise stated.

** Effective group percentage held

*** This amount consist of various associates' financial information.

This represents the actual assets, liabilities and revenue of the associate at the end of the financial year.

- MMI Strategic Investments (Pty) Ltd (MMI SI) acquired a 49% holding in ABHIL (International segment) during the year. ABHIL is a health insurance business and was formed by MMI SI and Aditya Birla Financial Services Ltd (incorporated in India). The carrying amount of the associate includes funding advanced to the company in addition to the capital acquired. The total assets consist of R506 million current assets and R22 million non-current assets. The total liabilities consist of R16 million current liabilities and R9 million non-current liabilities. The principal place of business is in India.
- Aluwani is an asset management services company that is 40% held by MMI SI in the Corporate and Public Sector segment. Aluwani was derecognised as a subsidiary and recognised as an associate during the current year. The carrying amount includes a gain of R45 million which represents the excess of the fair value of Aluwani over the carrying amount on date of recognition.
- EPF CV (Shareholder Capital 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%.
- KEIF relates to an associate held by a consolidated collective investment scheme. Management has assessed the level of influence that the group has on KEIF and determined that it has significant influence even though the shareholding is below 20%.

	2016 Rm	2015 Rm
6 FINANCIAL INSTRUMENTS		
6.1 Securities designated at fair value through income		
Equity securities	107 874	104 748
Debt securities	111 397	104 176
Funds on deposit and other money market instruments	18 697	24 473
Unit-linked investments	135 662	132 330
	373 630	365 727
Open-ended	244 367	238 257
Current	44 926	46 044
Non-current	84 337	81 426
1 to 5 years	32 013	33 500
5 to 10 years	15 273	15 355
> 10 years	37 051	32 571
	373 630	365 727

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.

	2016 Rm	2015 Rm
Scrip lending (included above)		
<i>Carrying value of securities on loan</i>		
Local listed equity securities	1	2 157
Refer to note 50 for detail on collateral held.		
6.2 Investments in associates designated at fair value through income		
Collective investment schemes (refer to Annexure B)	10 499	12 362

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016		2015	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>				
6.3 Derivative financial instruments				
Held for trading	1 977	2 097	2 027	2 111
Held for hedging purposes – “fair value hedges”	–	–	6	–
	1 977	2 097	2 033	2 111
Current	464	174	564	304
Non-current	1 513	1 923	1 469	1 807
	1 977	2 097	2 033	2 111

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

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

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:

- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

	2016			2015		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>						
6.3 Derivative financial instruments <i>continued</i>						
Derivatives held for trading						
Equity derivatives		187	113		120	159
Options, OTC	–	2	4	349	68	61
Options, exchange traded	(871)	68	16	(664)	9	–
Futures, exchange traded	1 468	113	88	873	35	98
Swaps, OTC	(1)	4	5	8	8	–
Interest rate derivatives		1 749	875		1 827	1 158
Options, OTC	(253)	16	–	(200)	12	–
Swaps, OTC	872	1 733	875	655	1 809	1 154
Forward rate agreement, OTC	–	–	–	(276)	6	4
Bonds		10	11		69	25
Options, exchange traded	22	–	7	10	–	–
Futures, OTC	615	8	1	(1 454)	5	25
Futures, exchange traded	1 274	2	3	973	64	–
Credit derivatives		5	5		4	7
Swaps, OTC	(1)	5	5	(3)	4	7
Currency derivatives		26	1 093		7	762
Futures, OTC	1 000	26	45	7	7	–
Futures, exchange traded	(767)	–	–	(644)	–	64
Swaps, OTC	(1 048)	–	1 048	(698)	–	698
Derivatives held for trading		1 977	2 097		2 027	2 111
Derivatives held for hedging purposes						
Interest rate swaps	–	–	–	6	6	–
Total derivative financial instruments		1 977	2 097		2 033	2 111

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>		
6.4 Available-for-sale		
Equity securities		
Local listed	65	12
Foreign listed	48	147
Unlisted	–	36
Unit-linked investments	12	13
	125	208
Open-ended	–	8
Current	125	200
	125	208

General

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

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

	2016 Rm	2015 Rm
7 LOANS AND RECEIVABLES		
Accounts receivable	4 162	2 993
Unsettled trades	896	2 503
Loans	2 557	2 359
Related party loans		
Staff loans	76	67
Loans due from associates	85	80
Preference shares	97	64
Empowerment partners	293	328
Other related party loans	146	81
Less: provision for impairment on related party loans	–	(65)
Other loans		
Due from agents, brokers and intermediaries	417	355
Less: provision for impairment	(150)	(174)
Policy loans	1 474	1 444
Other	119	179
	7 615	7 855
Current	6 794	6 814
Non-current	821	1 041
	7 615	7 855
Reconciliation of aggregated provision accounts		
Balance at beginning	239	171
Additional provision	22	81
Utilised/reversed during year	(111)	(13)
Balance at end	150	239

7 LOANS AND RECEIVABLES *continued*

Terms and conditions of material loans

- The loans to empowerment partners of R293 million includes a loan of R285 million at 30 June 2016 (2015: R303 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% (2015: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.

	2016 Rm	2015 Rm
8 REINSURANCE CONTRACT ASSETS		
Reinsurance asset relating to long-term insurance	1 558	1 225
Reinsurance asset relating to cell captive business	2 933	1 267
Prepaid reinsurance	601	554
	5 092	3 046
Balance at beginning	3 046	2 778
Movement charged to income statement	331	(154)
Attributable to non-cell captive business	433	(28)
Attributable to cell captive business	(102)	(126)
Business combinations (refer to note 38)	–	6
Cell captive premiums	19	(12)
First-party cell captives	1 475	494
Third-party cell captives	218	(73)
Exchange differences	5	1
Other	(2)	6
Balance at end	5 092	3 046
Current	4 761	2 357
Non-current	331	689
	5 092	3 046

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
9 DEFERRED INCOME TAX		
Deferred tax asset	279	287
Deferred tax liability	(3 812)	(4 351)
	(3 533)	(4 064)
<i>Deferred tax is made up as follows:</i>		
Accruals and provisions	163	227
Accelerated wear and tear	(65)	(6)
Revaluations	(1 253)	(1 523)
Deferred tax on intangible assets as a result of business combinations	(2 378)	(2 521)
Deferred revenue liability	155	159
Difference between published and statutory policyholder liabilities	716	612
Tax losses	206	150
Negative rand reserves	(375)	(408)
Deferred acquisition costs	(614)	(597)
Prepayments	(9)	(8)
Other	(79)	(149)
	(3 533)	(4 064)
Current	(15)	(346)
Non-current	(3 518)	(3 718)
	(3 533)	(4 064)
<i>Movement in deferred tax</i>		
Balance at beginning	(4 064)	(4 018)
Charge to the income statement	549	207
Accruals and provisions	(41)	84
Accelerated wear and tear	(21)	2
Revaluations	286	86
Deferred tax on intangible assets as a result of business combinations	188	228
Deferred revenue liability	(4)	12
Difference between published and statutory policyholder liabilities	104	(81)
Tax losses	20	(37)
Negative rand reserves	33	(13)
Deferred acquisition costs	(16)	(36)
Prepayments	(1)	(4)
Other	1	(34)
Charge to other comprehensive income (refer to note 14)	(16)	(36)
Business combinations (refer to note 38)	–	(213)
Other	(2)	(4)
Balance at end	(3 533)	(4 064)
Deferred tax asset on available tax losses and credits not provided for	425	249

9 DEFERRED INCOME TAX *continued*

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 R206 million (2015: R150 million) raised due to tax losses, is a deferred tax asset of R163 million (2015: R132 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 R754 million (2015: R673 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.

	2016 Rm	2015 Rm
10 PROPERTIES UNDER DEVELOPMENT		
Costs incurred on projects for third parties	86	807
Funding received from third parties	(86)	(807)
	–	–
Property developed for subsequent sale	187	330
Total	187	330
11 INSURANCE AND OTHER RECEIVABLES		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	3 859
Insurance contract holders	2 499	2 394
Investment contract holders with DPF	188	9
Cell captives	930	768
Less: provision for impairment	(53)	(56)
Due from reinsurers	679	744
Accelerated rental income (refer to note 4)	229	184
Other	25	37
	4 497	4 080
Current	4 355	3 969
Non-current	142	111
	4 497	4 080
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	9 809	10 537
Funds on deposit and other money market instruments – maturity < 90 days	19 339	15 637
	29 148	26 174

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

13 SHARE CAPITAL AND SHARE PREMIUM

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

Authorised share capital of MMI Holdings Ltd

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

Authorised share capital of MMIGL

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

Issued share capital

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

	2016 Rm	2015 Rm
Balance at beginning	13 804	13 791
Treasury shares held on behalf of contract holders	35	(7)
Conversion of preference shares net of share issue costs	17	20
	13 856	13 804
Share capital	9	9
Share premium	13 847	13 795
	13 856	13 804

MMI Holdings Ltd ordinary shares	2016 Million	2015 Million
Total issued MMI Holdings Ltd shares at 30 June	1 572	1 570
Conversion of preference shares	2	2
Total ordinary shares in issue	1 574	1 572
Treasury shares held on behalf of contract holders	(13)	(14)
Basic number of shares in issue	1 561	1 558
Convertible redeemable preference shares	30	32
Diluted number of shares in issue	1 591	1 590
Treasury shares held on behalf of contract holders	13	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 2016 (2015: 190 million).

Preference shares

MMI Holdings Ltd had 32 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 14 and the debt component is disclosed under note 19. On 1 October 2015 and 5 April 2016, 992 371 and 891 064 A3 preference shares, respectively, were converted to ordinary shares. Refer to note 19 for more details.

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

Dividends

For detail of dividends declared and paid during the year, refer to page 94 of the Directors' Report.

	2016 Rm	2015 Rm
14 OTHER COMPONENTS OF EQUITY		
(a) Land and building revaluation reserve	742	631
(b) Foreign currency translation reserve	122	181
(c) Revaluation of available-for-sale investments	11	8
(d) Non-distributable reserve	50	19
(e) Employee benefit revaluation reserve	77	78
(f) Fair value adjustment for preference shares issued by MMI Holdings Ltd	940	940
(g) Equity-settled share-based payment arrangements	13	9
	1 955	1 866
<i>Movements in other reserves</i>		
(a) Land and building revaluation reserve		
Balance at beginning	631	561
Earnings directly attributable to other components of equity	108	82
Revaluation	124	118
Deferred tax on revaluation	(16)	(36)
Transfer from/(to) retained earnings	3	(12)
Balance at end	742	631
(b) Foreign currency translation reserve		
Balance at beginning	181	179
Currency translation differences	(59)	2
Balance at end	122	181
(c) Revaluation of available-for-sale investments		
Balance at beginning	8	3
Fair value gain – gross	3	5
Balance at end	11	8
(d) Non-distributable reserve		
Balance at beginning	19	16
Transfer from retained earnings	29	3
Other	2	–
Balance at end	50	19
(e) Employee benefit revaluation reserve		
Balance at beginning	78	98
Remeasurement of post-employment benefit obligations	(1)	(20)
Balance at end	77	78
(f) Fair value adjustment for preference shares issued by MMI Holdings Ltd		
Equity component of preference shares issued	940	940
This represents the write-up of the carrying value of the preference shares issued by MMI Holdings Ltd to KTH to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.		
(g) Equity-settled share-based payment arrangements		
BEE share-based payment		
Balance at beginning	9	5
BEE cost	4	4
Balance at end	13	9

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. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
15 INSURANCE CONTRACTS		
15.1 Long-term insurance contracts		
<i>15.1.1 Long-term insurance contract liabilities</i>	106 085	104 038
<i>15.1.2 Liabilities to third-party cell captive owners</i>	1 008	708
	107 093	104 746
Capitation contracts	22	30
Total	107 115	104 776
Open-ended	18 371	16 291
Current	11 144	11 316
Non-current	77 600	77 169
	107 115	104 776
<i>Movement in long-term insurance contracts</i>		
15.1.1 Long-term insurance contract liabilities		
Balance at beginning	104 038	105 509
Transfer to policyholder liabilities under insurance contracts	1 626	(1 404)
Increase in retrospective liabilities	3 113	1 805
Unwind of discount rate	3 054	2 796
Expected release of margins	(2 885)	(3 205)
Expected cash flows	(4 933)	(4 002)
Change in economic assumptions	10	284
Change in non-economic assumptions	429	(374)
New business	3 362	1 132
Experience variances	(524)	160
Net exchange differences	264	(14)
Business combinations (refer to note 38)	–	20
Other	157	(73)
Balance at end	106 085	104 038
15.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	708	530
Charge to the income statement	(1 272)	(665)
Net cash flows	3 765	2 914
Changes in share capital, dividends and other items relating to cell captives	(2 193)	(2 071)
Balance at end	1 008	708

	2016 Rm	2015 Rm
15 INSURANCE CONTRACTS <i>continued</i>		
15.2 Short-term insurance contracts		
15.2.1 Unearned premium provision	3 431	3 168
15.2.2 Outstanding claims	1 887	1 548
15.2.3 Liabilities to third-party cell captive owners	1 660	1 837
Total	6 978	6 553
Open-ended	1 419	1 600
Current	5 552	4 883
Non-current	7	70
	6 978	6 553
<i>Movement in short-term insurance contracts</i>		
15.2.1 Unearned premium provision		
Balance at beginning	3 168	2 797
Business combinations (refer to note 38)	–	39
Movement in unearned premium provision		
Premium income received	2 537	2 575
Recognition of premium income	(2 301)	(2 252)
Exchange differences	27	9
Balance at end	3 431	3 168
15.2.2 Outstanding claims		
Balance at beginning	1 548	1 396
Business combinations (refer to note 38)	–	118
Increase in outstanding claims	283	37
Exchange differences	56	(3)
Balance at end	1 887	1 548
15.2.3 Liabilities to third-party cell captive owners		
Balance at beginning	1 837	1 303
Charge to the income statement	(71)	(139)
Cell tax	(251)	(250)
Net fair value gains on assets at fair value through income	180	111
Cell captive income	250	200
Net cash flows	360	911
Dividends paid	(766)	(574)
Change in share capital	–	102
Exchange differences	50	34
Balance at end	1 660	1 837

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
16 INVESTMENT CONTRACTS		
16.1 Investment contracts with DPF	25 195	26 134
16.2 Investment contracts designated at fair value through income	232 790	220 356
16.2.1 Investment contract liabilities designated at fair value through income	222 419	212 072
16.2.2 Liabilities to first-party cell captive owners	10 371	8 284
Total investment contract liability	257 985	246 490
<i>Movement in investment contracts with DPF</i>		
16.1 Investment contracts with DPF		
Balance at beginning	26 134	25 405
Transfer to policyholder liabilities under investment contracts with DPF	(940)	728
Decrease in retrospective liabilities	(1 548)	(290)
Unwind of discount rate	(7)	(11)
Expected release of margins	(256)	(295)
Expected cash flows	(509)	(490)
Change in economic assumptions	-	5
Change in non-economic assumptions	69	(8)
New business	1 294	1 788
Experience variances	17	29
Exchange differences	1	1
Balance at end	25 195	26 134
Open-ended	19 648	20 422
Current	738	753
Non-current	4 809	4 959
	25 195	26 134
<i>Movement in investment contracts designated at fair value through income</i>		
16.2 Investment contracts designated at fair value through income		
16.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	212 072	194 362
Business combinations (refer to note 38)	-	38
Contract holder movements	10 132	17 551
Deposits received	32 975	36 173
Contract benefit payments	(36 539)	(32 423)
Fees on investment contracts	(2 285)	(2 063)
Fair value adjustment to policyholder liabilities under investment contracts	15 794	15 771
Changes in share capital, dividends and other items relating to cell captives	187	93
Exchange differences	215	121
Balance at end	222 419	212 072
16.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	8 284	7 289
Contract holder movements	1 981	818
Deposits received	1 215	1 538
Contract benefit payments	(898)	(1 492)
Fees on investment contracts	(103)	(111)
Fair value adjustment to policyholder liabilities under investment contracts	411	268
Cell captive expenses	(320)	(468)
Changes in share capital, dividends and other items relating to cell captives	1 676	1 083
Exchange differences	106	177
Balance at end	10 371	8 284
Open-ended	119 509	117 187
Current	4 540	4 084
Non-current	108 741	99 085
	232 790	220 356

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

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

The assumptions are set as follows:

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

The liabilities at 30 June 2016 would have been R12 702 million (2015: R13 620 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

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

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2015 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2015 for Metropolitan Retail business and December 2015 for Momentum Retail business.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2010 to 2015 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2015. The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2015. Mortality assumptions for employee benefits contracts within the Corporate and Public Sector and Momentum Retail annuity business are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2015. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations on retail contracts are done regularly, the most recent being in respect of the period ended December 2015 for Momentum Retail. For Metropolitan Retail exposure is extremely low and morbidity rates are derived through collaboration with reinsurers. Assumptions relating to benefits under employee benefit contracts within the Corporate and Public Sector and Momentum Retail business have been set relative to experience up to December 2015.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the group's own experience.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the Corporate and Public Sector and Momentum Retail segments, 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 March 2016 for Metropolitan Retail business and December 2015 for Momentum Retail business.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended March 2016 for Metropolitan Retail business and December 2015 for Momentum Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Expenses

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

- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2017 financial year (adjusted for long-term expectations, where appropriate) and allows for escalation at the assumed expense inflation rate of 7.4% (2015: 6.8%). An additional 1% expense inflation is assumed in respect of retail business within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- 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% (2015: + 3.5%)
 - Property rate: gilt rate + 1.0% (2015: + 1.0%)
 - Corporate bonds: gilt rate + 0.5% (2015: + 0.5%)
 - Cash rate: gilt rate -1.0% (2015: -1.0%)
- An inflation rate of 7.4% p.a. for ZAR-denominated business was used to project future renewal expenses (2015: 6.8% p.a.). This inflation rate was derived by deducting the assumed long-term real return of 1.8% (2015: 1.8%) from the risk-free rate. The assumed long-term real yield is determined with reference to the 10-year real return on CPI-linked government bonds with considerable smoothing applied to limit the volatility of this assumption.
- A rate of 8.4% p.a. (2015: 7.8% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2015: 1.0% p.a.).
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2016	2015
Risk discount rate	11.4%	10.9%
Gilt rate – risk-free investment return	9.2%	8.6%
Assumed investment return for individual smoothed bonus business	11.4%	10.8%
Renewal expense inflation base rate	7.4%	6.8%

Future bonuses

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

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2016. 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
2016	7.6	7.8	8.1	8.3	8.5	9.3	9.9	10.3	10.5	10.7	10.9	10.9
2015	6.8	7.2	7.6	7.8	8.0	8.7	9.2	9.6	9.7	9.8	9.8	9.8

The following instruments have been valued by the model:

Instrument	2016		2015	
	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	6.7%	23.0%	5.6%	19.4%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	2.0%	27.5%	1.4%	24.1%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.07473 (2015: 1.03770)	8.5%	21.9%	7.2%	18.6%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	8.4%	25.4%	7.8%	23.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	14.4%	23.9%	13.9%	21.9%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.52285 (2015: 1.26820)	18.1%	23.2%	16.6%	21.4%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	2.4%	30.1%	2.7%	28.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{10}$ of spot	9.6%	29.2%	11.4%	27.9%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 5.1620 (2015: 3.48810)	29.1%	28.0%	28.0%	27.4%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	6.7%	15.2%	6.3%	13.7%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	0.4%	N/A	0.4%	N/A

Tax

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2016 by R482 million (2015: R160 million) for the group. The major contributors to this change were as follows:
 - Actuarial methodology and other changes – negative R240 million (2015: negative R314 million).
 - Experience basis changes – negative R195 million (2015: positive R154 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
 - Economic assumption changes – negative R46 million (2015: Rnil). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.

Sensitivity analysis

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

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

	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontin- uance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
2016						
Insurance business						
Retail insurance business (excluding annuities)	61 310	60 185	60 527	61 599	59 278	61 629
Annuities (retail and employee benefits)	40 133	39 963	40 014	40 133	40 593	41 510
Employee benefits business (excluding annuities)	3 683	3 683	3 683	3 683	3 686	3 693
Investment with DPF business	25 133	25 094	25 117	25 136	25 111	25 379
Investment business	221 276	221 265	221 272	221 276	221 275	223 012
Subtotal	351 535	350 190	350 613	351 827	349 943	355 223
Cell captive and short-term business	20 543					
Total	372 078	350 190	350 613	351 827	349 943	355 223
2015						
Insurance business						
Retail insurance business (excluding annuities)	61 865	61 200	61 141	62 165	60 210	62 214
Annuities (retail and employee benefits)	37 851	37 673	37 713	37 851	38 386	39 911
Employee benefits business (excluding annuities)	3 824	3 823	3 823	3 824	3 837	3 843
Investment with DPF business	26 073	26 054	26 064	26 074	26 072	26 133
Investment business	210 487	209 483	209 489	209 494	209 493	211 139
Subtotal	340 100	338 233	338 230	339 408	337 998	343 240
Cell captive and short-term business	17 719					
Total	357 819	338 233	338 230	339 408	337 998	343 240

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.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis *continued*

The sensitivities were chosen because they represent the main assumptions regarding future experience that the group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMI's published 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 on page 152 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% (2015: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R126 million (2015: R113 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.

	2016 Rm	2015 Rm
18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME		
Collective investment scheme liabilities	26 368	25 869
Subordinated call notes	3 557	3 320
Carry positions	7 313	9 370
Preference shares	1 018	1 016
Other	118	145
	38 374	39 720
Current	34 814	36 418
Non-current	3 560	3 302
	38 374	39 720

- 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 debt issuances. MMIGL has sufficient cash to cover the debt. Refer to note 44 for more detail.
- Carry positions (secured) – R2 348 million (2015: R3 313 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 R2 374 million (2015: R6 467 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:
 - Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to embedded value. In terms of IFRS, the group has recognised a financial liability of R104 million (2015: R111 million), being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and in June 2015 de-recognised the non-controlling interest (R90 million) due to the financial liability recognised above, which is in line with its selected accounting policy.
 - Included in the prior year was R30 million of future contingent payments relating to Providence. The contingent future liability related to an additional payment based on the performance of the Providence group. This liability was settled in the current year with a payment of R25 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
19 FINANCIAL LIABILITIES AT AMORTISED COST		
Borrowings		
Cumulative redeemable convertible preference shares	275	293
Finance lease liabilities	1	2
Property development loans	585	642
Other	197	155
	1 058	1 092
Current	605	443
Non-current	453	649
	1 058	1 092

19.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, had 32 234 084 A3 cumulative convertible redeemable preference shares in issue (to KTH, the group's strategic BEE partner) at the beginning of the year. Dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redemption date of 29 June 2017. On each of 1 October 2015 and 5 April 2016, 1 million preference shares were converted into ordinary shares. In the prior year on 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares, on each date. The shares were originally issued at a price of R10.18 per share. Dividends are payable on the remaining preference shares at 132 cents per annum.

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

19.2 Property development loans

Included in property development loans are:

- A R492 million (2015: R489 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at the prime rate minus 1%. The loan is secured by the underlying property.
- A R93 million (2015: R153 million) loan from Absa Bank Ltd in order to develop property held by a subsidiary of Eris Property Group (Pty) Ltd. Interest on the loan is levied at the prime rate less 1%. The loan is secured by the underlying property.

	2016 Rm	2015 Rm
20 REINSURANCE CONTRACT LIABILITIES		
Balance at beginning	659	202
Change in liabilities under reinsurance agreements	314	457
New financial reinsurance agreements	454	467
Repayments	(130)	(148)
Change in estimates	(10)	138
Balance at end	973	659
Current	147	140
Non-current	826	519
	973	659

The reinsurance liability relates to a financial reinsurance agreement with registered reinsurers, whereby the reinsurer provided upfront funding to cells within Guardrisk and Momentum Ability. The cells then repay this funding over an agreed term and the liability associated with this repayment is disclosed above. Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

	2016 Rm	2015 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS		
21.1 Employee benefit assets		
Sage Group Pension Fund (SGPF)	248	230
Metropolitan Staff Retirement Fund (MSRF)	128	116
Metropolitan Staff Pension Fund (MSPF)	66	61
Other	3	3
Fair value of plan assets	445	410
Present value of funded obligations – MSPF	–	(2)
Net asset recognised	445	408

Details of the plans

All full-time employees in the ex-Momentum group (MMIGL and its subsidiaries before the merger with Metropolitan) are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The SGPF is a final salary defined benefit plan. A section 14 application for the SGPF is pending and it is expected that the fund will be liquidated or deregistered within the next financial year and the plan assets will be transferred to the employer. The plan assets comprise 100% of cash and cash equivalents.

The MSRF is a defined contribution arrangement with two separately registered sections: pension and provident. Members contribute at a fixed percentage of salary to the pension fund section and the employer contributes to the provident fund section. The fair value of the plan assets represents the balance of the Employer Surplus Account (ESA) valued at market value at year-end. All active members have transferred to the MMI Group Retirement Scheme, and the MSRF has commenced with a process to wind up. There is an impending conversion and transfer of the Employer's obligation for additional retirement benefits in lieu of the post-retirement medical scheme contributions subsidy for eligible members to members' fund credits in the MMI Group Retirement Scheme, with the transfer values being financed from a portion of the ESA.

The MSPF is in the process of winding up and the appointment of a Fund Liquidator is pending. 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 Fund Liquidator will deal with, among others, the transfer of the remaining balance of the ESA to the Employer. Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2016. 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. The majority of the plan assets consist of cash and cash equivalents and debt securities.

Key valuation assumptions for the plans

The key valuation assumptions used was a discount rate of 9% (2015: 9%) and an expected rate of return on plan assets of 9% (2015: 9%).

Income statement movement and future contributions

The total movement of R39 million (2015: R42 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 plans in the following year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS <i>continued</i>		
21.2 Employee benefit obligations		
(a) Post-retirement medical benefits	328	322
(b) Cash-settled arrangements	500	645
(c) Other employee benefit obligations	624	768
Total employee benefit obligations	1 452	1 735
Current	568	813
Non-current	884	922
	1 452	1 735
Employee benefit expenses are included in the income statement. Refer to note 32.		
(a) Post-retirement medical benefits		
Balance at beginning – unfunded	322	299
Business combinations (refer to note 38)	–	8
Current service costs	2	2
Interest expense	28	26
Actuarial (gains)/losses – other comprehensive income	(6)	9
Employer contributions	(18)	(16)
Benefits paid	–	(6)
Balance at end – unfunded	328	322
Current	81	26
Non-current	247	296
	328	322

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 value of liability	
		Change in significant assumption	Decrease in significant assumption Rm / Increase in significant assumption Rm
Healthcare cost inflation rate	8% (2015: 8%)	4%	(24)
Defined benefit fund			29
Valuation rate of interest/ discount rate	10% (2015: 9%)		
Administration fee inflation	8% (2015: 7%)		
Normal retirement age	60 – 62 years		
Mortality			
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates		
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years		

The weighted average duration of the post-retirement medical benefits obligation is 11.5 years (2015: 14.2 years).

	2016 Rm	2015 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS <i>continued</i>		
21.2 Employee benefit obligations <i>continued</i>		
(b) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	645	521
Additional provisions	169	456
Benefits paid	(314)	(332)
Balance at end	500	645
Current	248	358
Non-current	252	287
	500	645

Momentum share schemes

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

Momentum Sales Scheme (MSS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations were made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares. Allocations made vest equally over the third, fourth and fifth anniversary. In November 2013 it was decided to no longer issue options under this scheme. The previous grants of share options will run out over the relevant term pertaining to the specific grants. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme remains cash-settled.

MMI share schemes

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

MMI Long-term Incentive Plan (MMI LTIP)

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

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

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

Momentum Sales Phantom Shares (MSPS)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MMI share schemes *continued*

MMI Outperformance Plan (MMI OP)

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

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

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

MSS	2016 '000	2015 '000
Options in force at 1 July	8 855	12 442
Granted at prices ranging from (cents)	1 699 – 2 256	1 306 – 2 256
Options exercised/released during year	(3 880)	(3 134)
Market value of range at date of exercise/release (cents)	2 304 – 2 507	2 656 – 3 290
Options cancelled/lapsed during year	(450)	(453)
Granted at prices ranging from (cents)	1 666 – 2 256	1 699 – 2 100
Options in force at 30 June	4 525	8 855
Granted at prices ranging from (cents)	1 666 – 2 256	1 306 – 2 256
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2015/2016		3 963
Financial year 2016/2017	3 014	3 228
Financial year 2017/2018	1 511	1 664
Total outstanding shares	4 525	8 855
	2016	2015
Valuation assumptions of MSS:		
Share price	R21.99	R29.82
Volatility	13.7% – 16.6%	10.0% – 11.9%
Dividend yield	6.2%	4.4%
Forfeiture rate	5.0%	5.0%
Risk-free yield curve	7.2% – 7.5%	5.5% – 7.1%

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*
21.2 Employee benefit obligations *continued*
(b) Cash-settled arrangements *continued*

	MMI LTIP		MSPS	MMI OP	
	Retention units '000	Performance units '000		Retention units '000	Performance units '000
Units in force at 1 July 2014	14 973	19 668	1 749	–	–
Units granted during year	6 886	7 239	2 385	187	10 204
Units exercised/released during year	(4 470)	(6 140)	–	–	–
Units cancelled/lapsed during year	(1 314)	(2 138)	(251)	–	(93)
Units in force at 30 June 2015	16 075	18 629	3 883	187	10 111
Units granted during year	8 681	9 524	1 740	13	674
Units exercised/released during year	(4 794)	(6 469)	(6)	–	–
Units cancelled/lapsed during year	(1 649)	(2 234)	(387)	–	(97)
Units in force at 30 June 2016	18 313	19 450	5 230	200	10 688

Market value of range at date of exercise/release

For MMI LTIP, the units were exercised/released at market values between 2 122 cents and 3 021 cents (2015: 2 569 cents and 3 373 cents). For MSPS, the units were exercised/released at a market value of 2 100 cents (2015: N/A).

Units outstanding (by expiry date) for the MMI LTIP, MSPS and MMI OP at 30 June 2016 are as follows:

	MMI LTIP		MSPS	MMI OP	
	Retention units '000	Performance units '000		Retention units '000	Performance units '000
2016					
Financial year 2016/2017	5 953	5 602	501	–	–
Financial year 2017/2018	5 547	5 784	1 193	–	–
Financial year 2018/2019	6 813	8 064	1 743	120	6 413
Financial year 2019/2020	–	–	1 242	80	4 275
Financial year 2020/2021	–	–	551	–	–
Total outstanding shares	18 313	19 450	5 230	200	10 688

Valuation assumptions relating to outstanding units at 30 June:

MMI LTIP 2016	Units granted during the current year			
	10th tranche	11th tranche	12th tranche	13th tranche
Award date	25-Sep-15	01-Oct-15	04-Apr-16	30-Jun-16
Vesting date	25-Sep-17	01-Oct-18	04-Apr-19	30-Jun-19
Outstanding units (thousands)	491	6 447	148	218
Valuation assumptions include:				
Outstanding tranche period in years	1.24	2.25	2.75	3.00
Take-up rate on units outstanding	88%	82%	82%	82%
Current vesting rate	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 22.64	R 22.64	R 22.64	R 22.64

2016 continued	Performance units		
	8th tranche	9th tranche	10th tranche
Award date	01-Oct-15	04-Apr-16	30-Jun-16
Vesting date	01-Oct-18	04-Apr-19	30-Jun-19
Outstanding units (thousands)	7 644	202	218
Valuation assumptions include:			
Outstanding tranche period in years	2.25	2.75	3.00
Take-up rate on units outstanding	82%	82%	82%
Current vesting rate	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 22.64	R 22.64	R 22.64

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MMI LTIP 2015	Retention units			Performance units	
	7th tranche	8th tranche	9th tranche	6th tranche	7th tranche
Award date	25-Sep-14	01-Oct-14	01-Apr-15	01-Oct-14	01-Apr-15
Vesting date	25-Sep-16	01-Oct-17	01-Apr-18	01-Oct-17	01-Apr-18
Outstanding units (thousands)	553	5 314	18	6 124	13
Valuation assumptions include:					
Outstanding tranche period in years	1.25	2.25	2.75	2.25	2.75
Take-up rate on units outstanding	88%	82%	82%	82%	82%
Current vesting rate	100%	100%	100%	125%	125%
Adjusted share price, adjusted for future dividends and past special distributions	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15

Vesting rate assumptions regarding performance units in the table above

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 67 of this integrated report.

There are three performance criteria, the first being an absolute targeted Return on Embedded Value (ROEV) of the Risk Free rate +3% average over the vesting period. The second criteria is an absolute targeted Return on Embedded Value (ROEV) of nominal GDP +3% average over the vesting period. The third criteria is an ROEV Index measure which compares MMI's average ROEV to that of its peer group over the vesting period. The tranche corresponding to the third criteria vests at 30 June 2016. The vesting rate is thus known.

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 Risk Free Rate or the GDP growth. 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 absolute ROEV over the remaining lifetime of in-force tranches (after 30 June 2016), the vesting percentage (average across all outstanding tranches) increases by 5%, subject to a maximum additional vesting of 100% of the allocated performance units. Each 1% outperformance of the absolute ROEV would result in an increase of R5 million in the liability under cash-settled arrangements at 30 June 2016. The risk free rate is the 10-year zero-coupon government bond yield.

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

2015	7th tranche	8th tranche	9th tranche	10th tranche	11th tranche
Award date	01-Oct-14	01-Oct-14	01-Oct-14	01-Nov-14	01-Nov-14
Vesting date	01-Oct-17	01-Oct-18	01-Oct-19	01-Nov-17	01-Nov-18
Outstanding units (thousands)	104	104	104	571	571
Valuation assumptions include:					
Outstanding tranche period in years	2.25	3.25	4.25	2.33	3.33
Take-up rate on units outstanding	100%	100%	100%	100%	100%
Current vesting rate	95%	95%	95%	95%	95%

2015 continued	12th tranche	13th tranche	14th tranche	15th tranche
Award date	01-Nov-14	01-Mar-15	01-Mar-15	01-Mar-15
Vesting date	01-Nov-19	01-Mar-18	01-Mar-19	01-Mar-20
Outstanding units (thousands)	571	77	77	77
Valuation assumptions include:				
Outstanding tranche period in years	4.33	2.67	3.67	4.67
Take-up rate on units outstanding	100%	100%	100%	100%
Current vesting rate	95%	95%	95%	95%

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued***21.2 Employee benefit obligations** *continued***(b) Cash-settled arrangements** *continued***MMI OP**

No units were granted during the current year.

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

Tranches vested during the current or prior year

MMI LTIP: The second tranche was settled in November 2015 at R24.89 per share totalling R259 million.

MMI LTIP: The third tranche was settled in April 2016 at R23.68 per share totalling R4 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R169 million (2015: R456 million) for the group and is disclosed under employee benefit expenses in note 32.

	2016 Rm	2015 Rm
22 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	6 597	4 283
Claims in process of settlement		
Insurance contracts	4 663	1 838
Investment contracts with DPF	134	135
Premiums paid in advance	987	1 818
Due to reinsurers	813	492
Payables arising from investment contracts	157	1 451
Deferred revenue liability	449	409
Financial instruments	7 181	7 919
Unsettled trades	2 022	3 187
Commission creditors	812	573
Health saver liability	186	157
Other payables	4 161	4 002
	14 384	14 062
Current	13 986	13 612
Non-current	398	450
	14 384	14 062
Reconciliation of deferred revenue liability		
Balance at beginning of year	409	360
Deferred income relating to new business	97	113
Amount recognised in income statement (refer to note 27)	(57)	(64)
Balance at end of year	449	409

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
23 PROVISIONS		
Balance at beginning of year	78	157
Additional provisions	30	52
Utilisation of provisions	(42)	(84)
Unutilised amounts reversed	(25)	(43)
Exchange differences	2	(4)
Balance at end of year	43	78
Current	10	9
Non-current	33	69
	43	78
The provisions relate to small individual 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	–	17
Transferred from investment properties (refer to note 4)	470	–
Disposals	–	(17)
Balance at end of year	470	–
The non-current asset held for sale relates to an investment property held by MMIGL of R470 million. The transfer of the property to held for sale is due to the planned disposal thereof in the next financial year.		
25 INCOME TAX		
25.1 Current income tax (assets)/liabilities		
Current income tax assets	(537)	(365)
Current income tax liabilities	32	166
	(505)	(199)
Balance at beginning	(199)	(75)
Charged to income statement	2 713	2 638
Additional provisions	1 943	1 830
Prior year overprovisions	(22)	–
Tax attributable to cell captive owners	792	808
Paid during year	(3 019)	(2 752)
Business combinations (refer to note 38)	–	(13)
Other	–	3
Balance at end	(505)	(199)

	2016 Rm	2015 Rm
25 INCOME TAX <i>continued</i>		
25.2 Income tax expenses/(credits)		
Current taxation	2 713	2 638
Shareholder tax		
South African normal tax – current year	1 267	1 363
South African normal tax – prior year	(24)	(2)
Foreign countries – normal tax	67	85
Foreign withholding tax	103	101
Contract holder tax		
Tax on contract holder funds – current year	499	283
Tax attributable to cell captive owners	801	808
Deferred tax	(549)	(207)
Shareholder tax		
South African normal tax – current year	(249)	(326)
Foreign countries normal tax	(6)	2
Contract holder tax		
Tax on contract holder funds – current year	(364)	72
Tax attributable to cell captive owners	70	45
	2 164	2 431

	2016 %	2015 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Change in capital gains tax rate	4.9	–
Prior year adjustments	(0.7)	0.1
Taxation on contract holder funds	0.8	8.3
Foreign tax differential	(1.3)	(1.7)
Capital gains tax	–	0.7
Non-taxable income	(1.0)	(8.1)
Non-deductible expenses	2.2	6.1
Tax losses for which no deferred tax asset was recognised	5.9	2.2
Cell captive tax – to be recovered from cell owners	14.5	11.2
Other	(3.5)	(1.5)
Effective rate	49.8	45.3

	2016 Rm	2015 Rm
26 NET INSURANCE PREMIUMS		
Premiums received	38 589	35 297
Long-term insurance contracts	25 859	23 534
Health premiums	1 190	1 201
Investment contracts with DPF	3 396	3 432
Short-term insurance	8 144	7 130
Premiums received ceded to reinsurers	(9 618)	(7 901)
	28 971	27 396

Included in the above is R10 717 million (2015: R8 226 million) premiums and R7 473 million (2015: R5 902 million) reinsurance relating to cell captives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
27 FEE INCOME		
Contract administration	2 471	2 225
Investment contract administration	2 414	2 153
Release of deferred front-end fees	57	72
Trust and fiduciary services	1 892	1 842
Asset management	501	589
Asset administration	630	516
Retirement fund administration	761	737
Health administration	1 945	2 053
Other fee income	1 371	1 235
Administration fees received	251	170
Multiply fee income	357	288
Cell captive fee income	353	346
Cell captive deferred front-end fees	–	(8)
Other	410	439
	7 679	7 355
28 INVESTMENT INCOME		
Designated at fair value through income		
Dividend income – listed	3 120	2 551
Dividend income – unlisted	1 002	642
Interest income	12 345	11 410
Designated at fair value through income	10 872	10 116
Available-for-sale	–	29
Held-to-maturity	3	9
Loans and receivables	206	234
Cash and cash equivalents	1 264	1 022
Rental income	1 036	939
Investment properties	1 034	930
Owner-occupied properties	2	9
Other income	19	17
	17 522	15 559
29 NET REALISED AND FAIR VALUE GAINS		
Financial assets	11 356	15 839
Designated at fair value through income	10 516	16 422
Derivative financial instruments – gains/(losses)	744	(615)
Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	96	32
Financial liabilities		
Designated at fair value through income	41	4
Investment property	306	383
Valuation gains	354	439
Change in accelerated rental income	(48)	(56)
Other investments	121	22
	11 824	16 248

	2016 Rm	2015 Rm
30 NET INSURANCE BENEFITS AND CLAIMS		
Long-term insurance contracts	21 177	19 528
Death and disability claims	9 647	8 136
Maturity claims	5 082	4 802
Annuities	3 386	3 236
Surrenders	2 898	2 935
Terminations, disinvestments and withdrawal benefits	164	419
Health and capitation benefits incurred	1 032	996
Short-term insurance benefits incurred	5 043	4 022
Short-term insurance change in provision for outstanding claims	250	40
Investment contracts with DPF	5 030	4 050
Death and disability claims	63	36
Maturity claims	878	701
Annuities	194	157
Surrenders	322	331
Terminations, disinvestments and withdrawal benefits	3 573	2 825
	32 532	28 636
Amounts recovered from reinsurers	(5 923)	(4 026)
	26 609	24 610
Included in the above is R6 489 million (2015: R4 474 million) claims and R3 924 million (2015: R2 465 million) reinsurance relating to cell captives.		
31 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES		
Depreciation (refer to notes 2 and 3)	253	250
Owner-occupied properties	75	61
Equipment	178	189
Amortisation (refer to note 1)	993	1 044
Value of in-force business acquired	324	330
Customer relationships	424	465
Brands	62	62
Broker network	34	49
Computer software	149	138
Impairment of intangible assets (refer to note 1)	158	19
Goodwill	104	–
Customer relationships	–	2
Computer software	54	17
Impairment of owner-occupied property (refer to note 2)	3	–
Impairment of financial assets	1	13
Loans and receivables	1	13
	1 408	1 326

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
32 EMPLOYEE BENEFIT EXPENSES		
Salaries	4 482	4 704
Contributions to medical aid funds	200	201
Defined benefit retirement fund	5	1
Defined contribution retirement fund	287	274
Post-retirement medical benefits	14	13
Retirement fund assets (refer to note 21.1)	(39)	(42)
Share-based payment expenses – Cash-settled arrangements (refer to note 21.2(b))	169	456
Current service costs – International subsidiaries' share schemes	61	59
Training costs	84	159
Other	78	97
	5 341	5 922
For detail of directors' and prescribed officers' emoluments, refer to pages 68 to 71 of the remuneration report.		
33 SALES REMUNERATION		
Commission incurred for the acquisition of insurance contracts	4 005	3 732
Commission incurred for the acquisition of investment contracts with DPF	1 034	880
Amortisation of deferred acquisition costs	289	391
Movement in provision for impairment of amounts due from agents, brokers and intermediaries	(24)	68
	5 304	5 071
34 OTHER EXPENSES		
Administration fees paid – binder and outsourcing fees	76	73
Asset management fees	2 152	1 739
Auditors' remuneration	99	84
Audit fees	95	75
Fees for other services	4	9
Bad debts written off	15	10
Bank charges	103	69
Consulting fees	641	399
Direct property operating expenses on investment property	329	288
Information technology expenses	657	476
Marketing costs	442	465
Multiply benefit payments	374	239
Office costs	731	891
Operating lease charges	94	97
Other indirect taxes	299	228
Policy services	40	46
Travel expenses	233	199
Other expenses	410	503
	6 695	5 806
35 FINANCE COSTS		
Interest expense on financial liabilities		
Redeemable preference shares	110	108
Subordinated redeemable debt	–	22
Unsecured subordinated call notes	341	249
Cost of carry positions	346	261
Other	140	152
	937	792

	Basic earnings		Diluted earnings	
	2016	2015	2016	2015
36 GROUP EARNINGS PER ORDINARY SHARE				
Attributable to owners of the parent				
Earnings (cents per share) ^{1,2}	137.6	183.5	135.9	180.5
Headline earnings (cents per share)	133.8	184.5	132.2	181.4
Core headline earnings (cents per share)	203.1	244.0	199.9	239.2
	Basic earnings		Diluted earnings	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Reconciliation of headline earnings attributable to owners of the parent				
Earnings – equity holders of group	2 142	2 857	2 142	2 857
Finance costs – convertible preference shares			41	44
Dilutory effect of subsidiaries ³			(23)	(31)
Diluted earnings			2 160	2 870
Intangible assets and other impairments ⁴	158	19	158	19
Tax on intangible assets and other impairments	(10)	(4)	(10)	(4)
Release of foreign currency translation reserve	(92)	–	(92)	–
Gain on sale of subsidiary	(115)	–	(115)	–
Headline earnings⁵	2 083	2 872	2 101	2 885
Net realised and fair value gains on excess	(210)	6	(210)	6
Basis and other changes and investment variances	517	148	517	148
Amortisation of intangible assets relating to business combinations	618	720	618	720
Non-recurring items ⁶	155	53	155	53
Investment income on treasury shares held on behalf of contract holders			25	24
Core headline earnings⁷	3 163	3 799	3 206	3 836
Weighted average number of ordinary shares in issue (million)	1 557	1 557	1 557	1 557
Adjustments for				
Assumed conversion of 30 million (2015: 32 million) preference shares (weighted)			32	33
Diluted weighted average – earnings and headline earnings (million)⁸			1 589	1 590
Treasury shares held on behalf of contract holders			15	14
Diluted weighted average – core headline earnings (million)⁸			1 604	1 604

¹ **Basic earnings per share**

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

² **Diluted earnings per share**

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

³ **Dilutory effect of subsidiaries**

Metropolitan Health is consolidated at 100% and the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in the results. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated.

⁴ **Intangible asset and other impairments**

Relates to the impairment of Hello Doctor and Cannon goodwill as well as the impairment of software in Health and International businesses.

⁵ **Headline earnings**

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

⁶ **Non-recurring items**

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

⁷ **Core headline earnings**

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

⁸ **Diluted weighted average number of shares**

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
37 CASH FLOW FROM OPERATING ACTIVITIES		
37.1 Cash utilised in operations		
Profit before tax	4 342	5 408
Adjusted for		
Items disclosed elsewhere		
Dividends received	(4 122)	(3 193)
Interest received	(12 345)	(11 410)
Finance costs	937	792
Non-cash-flow items		
Share of profits of associates	(18)	(4)
Net realised and fair value gains	(11 824)	(15 946)
Fair value adjustment to policy liabilities	16 205	15 377
Fair value adjustment to collective investment scheme liabilities	(153)	2 457
Depreciation and amortisation expenses	1 246	1 294
Impairment charges	69	102
Deferred acquisition costs movement	289	391
Share-based payments and other employee benefit expenses	169	528
Provisions	(37)	48
Reinsurance assets and liabilities	(331)	153
Deferred revenue liability movements	(57)	(65)
Other non-cash items	–	(5)
Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
Net insurance and investment liabilities	(2 626)	2 890
Intangible assets related to insurance and investment contracts	(416)	(436)
Investment properties	(349)	(149)
Properties under development	143	(78)
Financial assets and liabilities	6 553	(8 818)
Transaction costs on acquisition of subsidiaries and associates	–	(9)
Loans and receivables	508	(2 100)
Insurance and other receivables	(414)	(226)
Employee benefit assets and obligations	(490)	(68)
Reinsurance assets and liabilities	(1 398)	–
Other operating liabilities	379	3 462
Cash utilised in operations	(3 740)	(9 605)
37.2 Income tax paid		
Due at beginning	(3 865)	(3 943)
Charged to income statement	(2 164)	(2 431)
Charged directly to other comprehensive income	(16)	(36)
Other	–	(6)
Business combinations	–	(201)
Due at end	3 028	3 865
	(3 017)	(2 752)
37.3 Interest paid		
Redeemable preference shares	(110)	(108)
Subordinated redeemable debt	–	(22)
Unsecured subordinated call notes	(313)	(248)
Cost of carry positions	(346)	(261)
Other	(99)	(102)
	(868)	(741)

38 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2016

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

Business combinations for the year ended 30 June 2015

Cannon

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

CareCross

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

Other

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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

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

	2016 Rm	2015 Rm
39 CAPITAL AND LEASE COMMITMENTS		
Capital commitments		
Authorised but not contracted	13	208
Authorised and contracted	2	–
	15	208
The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, sponsorships, promotions and new business opportunities, will be financed from internal sources. Also refer to note 42 for significant events after the reporting period.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	42	21
Between 1 and 5 years	30	51
More than 5 years	–	31
	72	103
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	494	469
Between 1 and 5 years	978	821
More than 5 years	440	423
	1 912	1 713

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.

Uncertain tax position

Metropolitan Lesotho (ML) has objected to an assessment issued by the Lesotho Revenue Authority in respect of the years 2008 until 2014. The objection relates to the interpretation of tax categorisation of ML's products as well as the tax calculation basis of a non-composite life insurer. Given that the matter is still subject to the resolution of the objection process, the potential financial impact has not been disclosed.

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 25% 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 247.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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 61 and 62 and in the remuneration report on pages 68 to 71.

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

	2016 Rm	2015 Rm
Salaries and other short-term employee benefits	17	58
Post-employment benefits	1	1
Share-based payments	13	15
Directors' fees	16	16
	47	90

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

The executive directors participate in the group's long-term retention schemes, the details of which are in note 22.

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

	2016	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2016)	5	256
Aggregate life and disability cover (at 30 June 2016)	98	N/A
Deposits/premiums (for 12 months to June 2016)	1	7
Withdrawals/claims (for 12 months to June 2016)	-	(4)

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

In aggregate, the group earned fees and charges totalling R1 million (2015: R2 million) on the insurance and investment products set out above.

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

The group's broad-based black economic empowerment partner, KTH, has an interest of 7.1% (2015: 7.1%) in MMI Holdings Ltd. The group has entered into the following transactions with KTH:

- MMI Holdings Ltd issued preference shares to KTH as disclosed in note 19.1.
- KTH has a 51% holding in C Shell 448 (Pty) Ltd, an associate of MMI.
- KTH has certain strategic empowerment holdings in the group. Refer to the Directors' Report for more details.
- Dividends of R20.1 million (2015: R21.3 million) were paid to KTH on the A3 MMI Holdings Ltd preference shares. Dividends of R5 million (2015: R13 million) were paid to KTH on the Metropolitan Health Corporate "A" ordinary shares.

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 RELATED PARTY TRANSACTIONS *continued*

41.5 Transactions with associates

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

41.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

R362 million of the ordinary dividends declared by MMI Holdings Ltd in September 2015 (R333 million of the ordinary dividends declared in September 2014) and R261 million of the ordinary dividends declared in March 2016 (R248 million of the ordinary dividends declared in March 2015) were attributable to RMI Holdings Ltd. In September 2014, R196 million of the special dividends declared by MMI Holdings Ltd were attributable to RMI Holdings Ltd. Another R369 million will be provided for during the 2016 financial year (as part of the dividends declared in September 2016).

41.7 Post-employment benefit plans

Refer to notes 21.1 and 21.2 for details of the group's employee benefit plans.

42 EVENTS AFTER THE REPORTING PERIOD

Refer to page 96 of the Directors' Report.

43 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The group is currently exposed to the following risks:

Insurance risk: Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or a change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary.

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
43 FINANCIAL RISK MANAGEMENT <i>continued</i>		
43.1 Classes of assets and liabilities <i>continued</i>		
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	107 874	104 748
Local listed	85 011	79 843
Foreign listed	22 620	24 615
Unlisted	243	290
Debt securities	111 397	104 176
Stock and loans to government and other public bodies		
Local listed	41 423	39 402
Foreign listed	2 338	1 932
Unlisted	3 128	2 921
Other debt instruments		
Local listed	25 413	25 950
Foreign listed	677	564
Unlisted	38 418	33 407
Funds on deposit and other money market instruments	18 697	24 473
Unit-linked investments (<i>refer to Annexure B for further detail</i>)	135 662	132 330
Collective investment schemes		
Local unlisted or listed quoted	85 003	78 579
Foreign unlisted or listed quoted	35 541	30 027
Foreign unlisted unquoted	1 075	903
Other unit-linked investments		
Local unlisted or listed quoted	7 606	9 296
Local unlisted unquoted	6 421	12 241
Foreign unlisted unquoted	16	1 279
Foreign unlisted or listed quoted	–	5
Investments in associates designated at fair value through income (<i>refer to Annexure B for further detail</i>)	10 499	12 362
Derivative financial instruments	1 977	2 033
Held for trading	1 977	2 027
Held for hedging purposes	–	6
Available-for-sale	125	208
Equity securities		
Local listed	65	12
Foreign listed	48	147
Unlisted	–	36
Local unlisted quoted collective investment schemes (<i>refer to Annexure B for further detail</i>)	12	13
Financial assets carried at amortised cost		
Held-to-maturity	122	73
Loans and receivables	7 390	7 652
Accounts receivable	3 937	2 790
Unsettled trades	896	2 503
Loans	2 557	2 359
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	3 859
Cash and cash equivalents	29 148	26 174
Other assets carried at fair value		
Owner-occupied properties	3 112	3 030
Investment properties	7 422	7 212
Non-current assets held for sale	470	–
Other assets not carried at fair value	20 564	18 511
Total assets	458 702	446 841

	2016 Rm	2015 Rm
43 FINANCIAL RISK MANAGEMENT <i>continued</i>		
43.1 Classes of assets and liabilities <i>continued</i>		
The following table reconciles the liabilities in the statement of financial position to liability classes:		
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	232 790	220 356
Designated at fair value through income	38 374	39 720
Collective investment scheme liabilities	26 368	25 869
Subordinated call notes	3 557	3 320
Carry positions	7 313	9 370
Preference shares	1 018	1 016
Other	118	145
Derivative financial instruments	2 097	2 111
Held for trading	2 097	2 111
Carried at amortised cost		
Financial liabilities	1 058	1 092
Cumulative redeemable preference shares	275	293
Finance lease liabilities	1	2
Other	782	797
Other payables	12 948	11 835
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	5 610	2 465
Payables arising from investment contracts	157	1 451
Unsettled trades	2 022	3 187
Commission creditors	812	573
Other payables at amortised cost	4 347	4 159
Insurance contract liabilities	114 093	111 329
Investment contracts with DPF	25 195	26 134
Other non-financial liabilities	7 748	9 216
Total liabilities	434 303	421 793

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

44 CAPITAL MANAGEMENT

44.1 Capital management objectives

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

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

44.2 Capital management framework

The capital management framework rests on the following three pillars:

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

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

44.3 Overview of capital management developments

44.3.1 Capital held in the holding company

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

44.3.2 Capital allocated to the operating subsidiaries

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

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

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk.

For other life insurance companies in the group, a multiple of the statutory 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.

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

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

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.3 Statutory capital requirement

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

The statutory surplus and CAR are determined in accordance with the requirements of the FSB and the standards and practice notes as issued by the Actuarial Society of South Africa. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. Although CAR is only a statutory requirement for South African life insurance companies, it is also applied to the non-South African life insurance companies in the group as a measure of prudence. The regulatory capital requirements of insurance companies outside South Africa are generally less stringent than South African CAR requirements.

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

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

44.3.4 Regulatory capital developments

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

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

The group is in the process of preparing for the adoption of the SAM regulatory capital regime which will become applicable in 2017. During the 2016 calendar year the group will continue to focus on enhancements to SAM-affected processes and controls which are embedded in the day-to-day operations. The group has a sound process in place to monitor and identify developments in respect of new SAM legislative requirements. The group has seen better alignment, due to SAM implementation, in respect of stakeholder interests, including enhanced protection of policyholder benefits which is in line with MMI's financial wellness strategy and client-centric operating model.

MMI has successfully completed its first in-cycle mock Own Risk and Solvency Assessment (ORSA) as part of the Comprehensive Parallel Run in 2015. It has made further improvements to its ORSA processes and is on track to submit the second mock ORSA report in September 2016.

For Guardrisk, the SAM standard formulae proposed might not result in the most appropriate capital calculation and requirement for the cell captive environment. Guardrisk Insurance (the short-term insurer) therefore continues with the process of developing an internal model that will appropriately calculate the risk-based capital required in the cell captive environment. In this regard, Guardrisk Insurance is participating in the FSB's Internal Model Application Process. It has, however, become evident that the FSB will not be able to approve the Internal Model prior to the expected SAM implementation in 2017.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.5 Issuance of subordinated debt

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

- A 15-year fixed rate note (callable after 10 years) of R270 million, issued at a spread of 3.05% above the risk free rate (the R186 government bond).
- A 12-year fixed rate note (callable after 7 years) of R980 million, issued at a spread of 2.73% above the risk free rate (the R2023 government bond).

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

The table below shows a summary of the MMIGL subordinated, unsecured callable notes in issue at 30 June 2016:

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

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

44.4 Sources of capital utilised

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

MMIGL Regulatory capital	2016		2015	
	Rm	%	Rm	%
Tier 1	12 698	78	12 714	79
– core tier 1 (ie equity capital)	12 198	75	12 214	76
– non-redeemable preference shares	500	3	500	3
Tier 2: subordinated qualifying debt	3 557	22	3 320	21
Qualifying statutory capital	16 255	100	16 034	100

44.5 Regulatory capital position

At 30 June 2016, MMIGL's CAR was covered 3.0 times (2015: 2.8 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMIGL Regulatory capital position	2016 Rm	2015 Rm
Statutory excess over liabilities	16 255	16 034
CAR	5 351	5 810
CAR cover (times)	3.0	2.8

MMIGL's regulatory capital position improved over the 12 months ended 30 June 2016 as a result of an 8% decrease in the CAR with the surplus increasing by 1.4%.

Statutory earnings of R2.7 billion were offset by dividends paid of R2.8 billion. The balance of the increase is as a result of an increase in subordinated debt of R250 million.

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

- A decrease in the investment risk due to a decrease in liabilities resulting from assumption changes and higher interest rates.
- A decrease in the credit risk resulting from reduced credit risk exposure and refinements to the quantification of credit risk.

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 the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (ie. to look through the economic cycle).

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

44.7 Credit ratings

MMI appointed Moody's in October 2015 to review its credit ratings following the deregistration of Fitch Southern Africa by the FSB in September 2015. On 27 May 2016, Moody's published the credit ratings of MMI and Guardrisk as shown in the table below:

Entity	Type	Global scale	National scale
MMI			
MMIGL	Insurer financial strength	Baa1	Aaa.za
MMIGL subordinated debt	N/A	Baa3	Aa2.za
Guardrisk			
Guardrisk Insurance Company Ltd	Insurer financial strength	Baa1	Aaa.za
Guardrisk Life Ltd	Insurer financial strength	Baa1	Aaa.za
Guardrisk International Ltd PCC	Insurer financial strength	Baa2	N/A

Moody's commented that: "MMIGL's Aaa.za national scale IFS rating, which is derived from its Baa1 global scale IFS rating, reflects the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the group from stress related to credit pressures at the sovereign level (Government of South Africa, Baa2, negative)."

With regards to Guardrisk, Moody's commented that: "The ratings of Guardrisk reflect (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong and consistent profitability."

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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.

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

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the FSB to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MMIGL has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the MMI Holdings Ltd board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.
- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

Market-related business continued

- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

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

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.

Other non-profit business

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

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

45.2 Long-term insurance risk

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

Long-term insurance risk management

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

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

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

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

45.2.1 Demographic risks

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

- Premium rates are required to be certified by the statutory actuaries as being actuarially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk 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 demographic risks for individual insurance business:
 - The most significant factors that could substantially change the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
 - Economic conditions can potentially affect retrenchment claims as well as morbidity claims where benefits are determined in terms of the ability to perform an occupation.
 - Medical advances can potentially affect the size and severity of medical claims (including critical illness claims).
 - Anti-selection, such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
 - The effect of selective terminations, which means policyholders are less likely to terminate voluntarily if the cover is more likely to be needed in the foreseeable future.
 - Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.
- Demographic risks are managed as follows:
 - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the group to adjust these charges so that on average they reflect actual mortality experience reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
 - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
 - A guarantee period shorter than the policy term applies to most risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Demographic risks *continued*

- All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
- Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
- Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
- Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
- Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for sub-standard lives and large sums assured.

Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.

Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place for fully underwritten and limited underwriting products, but excludes funeral products which are not reinsured.

- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MMIGL's catastrophe reinsurance cover for the current financial year is R750 million (2015: R700 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

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

Sum insured per benefit (Rands)	2016			2015		
	Number of benefits	Amount (gross) Rm	Amount (net) Rm	Number of benefits	Amount (gross) Rm	Amount (net) Rm
0 – 20 000	9 224 934	73 755	21 602	9 862 911	54 569	21 979
20 001 – 50 000	1 824 857	58 641	29 983	1 667 338	55 532	27 451
50 001 – 100 000	778 090	55 374	18 968	729 220	53 561	16 238
100 001 – 200 000	406 752	62 122	21 744	315 605	50 858	21 837
200 001 – 500 000	353 391	120 849	56 408	265 490	91 878	55 788
500 001 – 1 000 000	263 585	146 265	94 906	239 877	133 638	94 769
> 1 000 000	653 429	874 050	485 997	725 528	801 911	455 727
Subtotal	13 505 038	1 391 056	729 608	13 805 969	1 241 947	693 789
Cell captive business	4 048 428	225 419	64 756	2 634 998	213 159	51 084
Total	17 553 466	1 616 475	794 364	16 440 967	1 455 106	744 873

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
 - life insurance (mostly lump sum, but including some children and spouse's annuities)
 - disability insurance (lump sum and income protection)
 - dread disease cover
 - continuation of insurance option.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Demographic risks *continued*

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

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

Lives covered by scheme	2016	2015
0 – 1 000	8 661	7 815
1 001 – 5 000	320	438
> 5 000	122	204
Subtotal	9 103	8 457
Cell captive business	74	58
Total	9 177	8 515

Annuity business

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Demographic risks *continued*

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

Annuity amount per annum (Rands)	2016		2015	
	Number of annuitants	Total amount per annum Rm	Number of annuitants	Total amount per annum Rm
0 – 10 000	80 333	340	81 885	341
10 001 – 50 000	48 046	1 080	48 418	1 084
50 001 – 100 000	10 915	761	10 353	720
100 001 – 200 000	5 329	732	4 818	662
> 200 000	2 884	1 038	2 492	912
Subtotal	147 507		147 966	
Cell captive business	1 589	72	1 342	68
Total	149 096		149 308	

Permanent health insurance business

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

45.2.2 Contract persistency risk

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

Factors affecting the risk:

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

How risks are managed:

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.3 Retrenchment risk

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

45.2.4 Expense risk

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

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

45.2.5 Business volume risk

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

45.3 Short-term insurance risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.3 Short-term insurance risk *continued*

The group conducts business in different classes of short-term insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (refer to note 46 for cell captive classes of business):

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

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

	2016 Rm	2015 Rm
Premiums	8 144	7 130
Claims	5 293	4 062

46 GUARDRISK

Introduction

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

Nature of business

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

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

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

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

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

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

46 **GUARDRISK** *continued*

Nature of business *continued*

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

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

Risk management

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

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

Cell captive arrangements

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

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

Contingency policy business

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

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

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

Risk participation with cell shareholders

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

Terms and conditions of non-life insurance contracts

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

46 **GUARDRISK** *continued*

Risk management *continued*

Terms and conditions of non-life insurance contracts *continued*

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

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

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

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

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

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

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

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

Terms and conditions of life insurance contracts

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

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

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

General risk overview

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

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

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

46 GUARDRISK *continued***Risk management** *continued***Reinsurance**

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

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

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

Concentrations of insurance risk

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

Credit risk

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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

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

The collective investment schemes not consolidated are included in Annexure B as Collective investment schemes and Investments in associates designated at fair value through income.

48 LIQUIDITY RISK

Liquidity risk governance

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

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

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 86% (2015: 85%) of the liabilities of the group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed policyholder benefits

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

Non-profit annuities' policyholder benefits

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

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon the contractual claim (maturity and risk benefit claim) of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

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

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

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

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

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

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

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

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares issued by MMI Holdings Ltd, the carry positions, the subordinated call notes issued by MMIGL and the cumulative redeemable preference shares issued by MMI Strategic Investments (Pty) Ltd.

The group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restrict exposure to high-quality assets.

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

Liquidity profile of assets

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

Financial asset liquidity	2016		2015	
	%	Rm	%	Rm
High ¹	69%	317 693	66%	296 392
Medium ²	25%	115 507	28%	125 591
Low/illiquid ³	5%	24 079	5%	23 979
Other assets not included above				
– non-current assets held for sale		470		–
– employee benefit assets		445		408
– accelerated rental income		229		184
– deferred income tax		279		287
Total assets		458 702		446 841

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).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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:

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

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 17.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 27 June 2017. It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost:

- It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R492 million (2015: R489 million). Interest on the loan is levied at the prime rate minus 1%. The interest is repaid monthly with the capital balance payable in December 2025. The loan is secured by the underlying property.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

48 LIQUIDITY RISK *continued* Maturity profile of liabilities *continued*

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

48 LIQUIDITY RISK *continued*

Maturity profile of 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.

2016 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	74	75	75	–	–
Interest rate derivatives	874	1 539	(290)	2 252	(423)
Bond derivatives	(1)	13 475	(1 302)	144	14 633
Credit derivatives	(1)	(5 447)	2 191	3 033	(10 671)
Currency derivatives	(1 067)	(593)	42	(282)	(353)
Total net undiscounted cash flow projections	(121)	9 049	716	5 147	3 186
Derivative financial instruments					
Assets	1 977				
Liabilities	(2 097)				
	<u>(120)</u>				
2015 R million					
Derivatives held for trading					
Equity derivatives	(39)	(56)	(56)	–	–
Interest rate derivatives	669	425	18	1 537	(1 130)
Bond derivatives	44	44	44	–	–
Credit derivatives	(3)	(14)	5	2	(21)
Currency derivatives	(755)	(333)	(35)	(59)	(239)
	(84)	66	(24)	1 480	(1 390)
Derivatives held for hedging					
Fair value hedges	6	6	6	–	–
Total net undiscounted cash flow projections	(78)	72	(18)	1 480	(1 390)
Derivative financial instruments					
Assets	2 033				
Liabilities	(2 111)				
	<u>(78)</u>				

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

49 MARKET RISK

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

Financial instruments held by the group are subject to the components of market risk as follows:

	Carrying value		Market price risk	Interest rate risk	Currency risk
	2016 Rm	2015 Rm			
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	107 874	104 748	✓✓		✓
Debt securities	111 397	104 176	✓	✓✓	✓
Funds on deposit and other money market instruments	18 697	24 473	✓	✓✓	✓
Unit-linked investments	135 662	132 330	✓✓	✓	✓
Investments in associates designated at fair value through income	10 499	12 362	✓✓	✓	✓
Derivative financial instruments					
Held for trading	1 977	2 027	✓✓	✓✓	✓
Held for hedging purposes	–	6	✓✓	✓✓	✓
Available-for-sale					
Equity securities	113	195	✓✓		
Local unlisted quoted collective investment schemes	12	13	✓✓		
Carried at amortised cost					
Held-to-maturity	122	73		✓✓	✓✓
Loans and receivables					
Accounts receivable	3 937	2 790		✓	✓
Unsettled trades	896	2 503			✓
Loans	2 557	2 359		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	3 859		✓	✓
Cash and cash equivalents	29 148	26 174		✓✓	✓
Other assets	31 568	28 753	N/A	N/A	N/A
Total assets	458 702	446 841			

		Carrying value		Market price risk	Interest rate risk	Currency risk
		2016 Rm	2015 Rm			
49	MARKET RISK <i>continued</i>					
	Liabilities					
	Carried at fair value					
	Investment contracts					
	Designated at fair value through income	232 790	220 356	✓✓	✓✓	✓
	Designated at fair value through income					
	Collective investment scheme liabilities	26 368	25 869	✓✓	✓	✓
	Subordinated call notes	3 557	3 320	✓	✓✓	
	Carry positions	7 313	9 370	✓	✓✓	
	Preference shares	1 018	1 016	✓	✓✓	
	Other	118	145		✓	✓
	Derivative financial instruments					
	Held for trading	2 097	2 111	✓✓	✓✓	✓
	Carried at amortised cost					
	Financial liabilities					
	Cumulative redeemable preference shares	275	293		✓✓	
	Finance lease liabilities	1	2		✓✓	
	Other	782	797		✓	
	Other payables					
	Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	5 610	2 465			✓
	Payables arising from investment contracts	157	1 451			✓
	Unsettled trades	2 022	3 187			✓
	Commission creditors	812	573		✓	✓
	Other payables at amortised cost	4 347	4 159		✓	✓
	Insurance contract liabilities	114 093	111 329	*	*	*
	Investment contracts with DPF liabilities	25 195	26 134	✓✓	✓✓	✓✓
	Other non-financial liabilities	7 748	9 216	N/A	N/A	N/A
	Total liabilities	434 303	421 793			

✓✓ 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.

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

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

Furthermore, MMI is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

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

FOR THE YEAR ENDED 30 JUNE 2016

49 MARKET RISK *continued*

Market risk governance

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

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

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

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

Market risk management per product

Individual and group contracts with discretionary participation features (DPF)

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. Separate investment portfolios are managed for each product.

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

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

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

Individual and group contracts with discretionary participation features (DPF) and continuous guarantees

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

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

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

49 MARKET RISK *continued*

Market risk management per product *continued*

Market-related/unit-linked business

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

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

Individual contracts offering investment guarantees

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

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

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

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

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

Non-profit annuity business

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

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds or bank-issued matching structures. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R15 million (2015: R60 million) for MMIGL.

The liability valuation calculation for MMIGL annuities is based on the risk-free yield curve. The average rate that produces the same result is 9.7% (2015: 8.9%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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 different to that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through appropriate interest rate instruments.

Shareholder cash flows in respect of individual contracts with investment components

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

49.1 Market risk management per risk factor

Equity risk

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

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

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

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long-term Insurance Act, 52 of 1998;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the MMI Private Equity Investments Committee, represented by specialist investment professionals and independent MMI representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to sensitivity analysis in note 49.5.

49 MARKET RISK *continued***49.2 Interest rate risk**

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the group's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest-bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

Instrument class 2016	Carrying value Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
Designated at fair value through income					
Debt securities	111 397	38 267	69 873	3 257	7.3
Funds on deposit and other money market instruments	18 697	15 452	3 160	85	7.3
Derivative financial assets	1 977	–	1 977	–	N/A
Derivative financial liabilities	(2 097)	–	(2 097)	–	N/A
Held-to-maturity	122	–	122	–	7.1
Cash and cash equivalents	29 148	23 658	3 496	1 994	4.8
Loans and receivables	7 390	2 418	1 394	3 578	8.7
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	–	130	4 113	–
	170 877	79 795	78 055	13 027	
2015					
Designated at fair value through income					
Debt securities	104 176	36 443	64 638	3 095	7.4
Funds on deposit and other money market instruments	24 473	20 992	3 481	–	6.6
Derivative financial assets	2 033	–	2 033	–	N/A
Derivative financial liabilities	(2 111)	–	(2 111)	–	N/A
Held-to-maturity	73	–	73	–	8.6
Cash and cash equivalents	26 174	21 137	4 762	275	3.7
Loans and receivables	7 652	1 544	933	5 175	5.2
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	516	193	3 150	–
	166 329	80 632	74 002	11 695	

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

49 MARKET RISK *continued*

49.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the group's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the South African Reserve Bank.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table below as the look-through principle was not applied.

Assets and liabilities denominated in Namibian dollar, Lesotho maluti and Swazi emalangi currencies that are pegged to the South African rand on a 1:1 basis do not represent significant currency risk for the group. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the group, are included in the group's statement of financial position at 30 June:

2016	Africa Rm	UK £ Rm	US \$ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
<i>Closing exchange rate</i>		19.6078	14.6587	16.2602			
Investment securities							
Designated at fair value through income							
Equity securities	948	1 774	14 638	1 462	1 901	1 265	21 988
Debt securities	1 394	192	3 162	1 733	–	67	6 548
Funds on deposit and other money market instruments	239	10	7	–	–	48	304
Unit-linked investments	15	1 163	31 519	1 332	5	90	34 124
Investments in associates	–	32	496	–	–	–	528
Derivative financial instruments	–	–	138	2	1	–	141
Available-for-sale							
Equity securities	102	–	–	–	–	–	102
Held-to-maturity	78	–	–	–	–	–	78
Loans and receivables	225	81	187	37	13	56	599
Cash and cash equivalents	494	351	5 024	725	36	42	6 672
Other financial assets	69	–	302	–	–	13	384
	3 564	3 603	55 473	5 291	1 956	1 581	71 468

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

2015	Africa Rm	UK £ Rm	US \$ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
<i>Closing exchange rate</i>		19.1850	12.1733	13.6512			
Investment securities Designated at fair value through income							
Equity securities	1 208	2 384	15 597	1 481	1 877	1 154	23 701
Debt securities	1 139	148	2 254	1 611	–	3	5 155
Funds on deposit and other money market instruments	274	4	5	–	–	5	288
Unit-linked investments	–	1 209	28 182	1 331	3	83	30 808
Investments in associates	–	77	250	–	–	–	327
Derivative financial instruments	–	–	45	1	–	1	47
Available-for-sale							
Equity securities	179	–	–	–	–	–	179
Held-to-maturity	73	–	–	–	–	–	73
Loans and receivables	209	39	224	17	21	3	513
Cash and cash equivalents	628	392	5 001	558	100	9	6 688
Other financial assets	102	–	250	–	–	–	352
	3 812	4 253	51 808	4 999	2 001	1 258	68 131

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

African exchange rates representing material balances above are:

<i>Closing exchange rate</i>	Botswana	Ghana	Kenya	Nigeria
2016	1.3466	3.7272	0.1450	0.0519
2015	1.2332	2.7949	0.1228	0.0618

49.4 Property risk

Property risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

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

	2016 Rm	2015 Rm
Investment properties	7 422	7 212
Owner-occupied properties	3 112	3 030
Properties under development	187	330
Collective investment schemes > 55% property exposure (refer to Annexure B)	3 718	5 115
Investment property held for sale	470	–
	14 909	15 687
Percentage of total assets	3.3%	3.5%

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 2016. The carrying amount of unlet and vacant investment property as at 30 June 2016 was R755 million (2015: R553 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

49 MARKET RISK *continued*

49.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to market risks. The group has identified that changes in equity prices and interest rates are the market risk elements with the most significant effect on earnings and equity. The table below provides the sensitivity to a change in equity prices by 10% and a change to long-term interest rates by 100 basis points:

	Equity prices		Interest rates	
	Increase by 10% Rm	Decrease by 10% Rm	Increase by 100 bps Rm	Decrease by 100 bps Rm
2016				
Increase/(decrease) in earnings per income statement	282	(275)	33	(22)
Increase/(decrease) in equity	495	(489)	33	(22)
2015				
Increase/(decrease) in earnings per income statement	414	(407)	63	(63)
Increase/(decrease) in equity	546	(539)	63	(63)

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with MMI's current practice and accounting policy, the investment variances from insurance contracts were stabilised.
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Hedging strategies using derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched within approved risk limits and tolerances and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the group is not considered to be material. Refer to note 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 management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

The executive BSM is a sub-committee of the group executive committee. This committee reports to the group's executive committee on the effectiveness of credit risk management and provides an overview of the group's shareholder credit portfolio. The executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the group credit exposure. This includes the monitoring of the following:

- quality of the credit portfolio
- stress quantification
- credit defaults against expected losses
- credit concentration risk
- appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Balance Sheet Management Committee of the Board (Board BSM committee).

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the group's credit risk appetite.

The approval framework for new credits consists of two committees, namely an Executive Credit Committee and the BSM Credit Committee. The BSM Credit Committee consists of senior credit executives and independent senior management executives. The Executive Credit Committee consists of Group Executive Committee members and senior management executives. The Executive Credit Committee approves credits in excess of the mandate and limits of the BSM Credit Committee.

The following are taken into account in the approval process:

- The underlying nature of the instrument and credit strength of the counterparty.
- The credit rating of the issuer, either internally generated or external from either Moody's, S&P or GCR.
- Current exposure and portfolio diversification effects.

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

- The use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof.
- Preparing credit applications and performing annual reviews.

Regular risk management reporting to the executive BSM includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

FOR THE YEAR ENDED 30 JUNE 2016

50 CREDIT RISK *continued*

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the board BSM committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to Annexure B for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The group enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the group's credit risk exposure policy. For OTC interest rate swaps, the group enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending

The group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

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

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

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

Loans and receivables

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the group's new business premiums arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

An impairment of commission debtors is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans

The group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy.

Policy loans are secured by policies issued by the group. In terms of the regulations applicable to the group, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the group owns.

50 **CREDIT RISK** *continued*

Loans and receivables *continued*

Reinsurance

The group only enters into reinsurance treaties with reinsurers registered with the FSB. The credit rating of the company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

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

	2016 Rm	2015 Rm
Designated at fair value through income		
Debt securities	111 397	104 176
Stock and loans to government and other public bodies	46 889	44 255
Other debt instruments	64 508	59 921
Funds on deposit and other money market instruments	18 697	24 473
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	22 070	19 541
Collective investment schemes	20 175	17 560
Other unit-linked investments	1 895	1 981
Derivative financial instruments	1 977	2 033
Held for trading	1 977	2 027
Held for hedging purposes	–	6
Held-to-maturity	122	73
Loans and receivables	7 390	7 652
Accounts receivable	3 937	2 790
Unsettled trades	896	2 503
Loans	2 557	2 359
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	3 859
Cash and cash equivalents	29 148	26 174
Total assets bearing credit risk	195 044	187 981

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 below, that would have otherwise been classified as loans and receivables or payables under IAS 39, have been designated at fair value through income.

The current year and cumulative fair value movements in these instruments were mainly due to market movements. The current year fair value movement includes R44 million (2015: R69 million loss) attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

On 27 May 2016, Moody's assigned an Aaa.za national scale insurance financial strength (IFS) rating to MMIGL. Moody's also assigned a Aaa.za longterm issuer rating and a Aa2.za rating to MMIGL's subordinated notes on the national scale.

At the same time, Moody's assigned the following ratings on the global scale, which serve as the basis for the national scale ratings: MMIGL IFS at Baa1, MMIGL long-term issuer rating at Baa2 and MMIGL subordinated notes at Baa3. The outlook is negative, on a global scale basis, and follows from the negative outlook for the Government of South Africa (Baa2, negative).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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

	Carrying value	
	2016 Rm	2015 Rm
Assets		
Debt securities	72 751	71 710
Funds on deposit and other money market instruments	14 822	14 531
	87 573	86 241
Liabilities		
Policyholder liabilities under investment contracts	232 790	220 356
Collective investment scheme liabilities	26 368	25 869
Subordinated call notes	3 557	3 320
Carry positions	7 313	9 370
Preference shares	1 018	1 016
Other	118	145
	271 164	260 076

Security and credit enhancements

In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments

For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the group's credit risk exposure policy described in this note.

Debt securities

The group 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 Rnil million (2015: R221 million). These instruments were disposed of during December 2015.

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R726 million (2015: R936 million), is secured by direct properties. The market value of the properties exceed the fair value of the rentals.

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R621 million at 30 June 2016 (2015: R953 million).

Transfers of financial assets

The group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements (refer to note 18). Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

The carrying value of scrip lent is R1 million (2015: R2 157 million) consisting of local listed equity securities. There is no collateral on the scrip lent as at the end of the current or prior year.

50 CREDIT RISK *continued***Security and credit enhancements** *continued***Offsetting**

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

Financial assets	Derivative financial assets	
	2016 Rm	2015 Rm
Gross and net amounts of recognised financial assets ¹	1 977	2 033
Related amounts not set off in the statement of financial position		
Financial instruments	(680)	(791)
Net amount	1 297	1 242

Financial liabilities	Derivative financial liabilities	
	2016 Rm	2015 Rm
Gross and net amounts of recognised financial liabilities	2 097	2 111
Related amounts not set off in the statement of financial position		
Financial instruments	(680)	(791)
Net amount	1 417	1 320

¹ No offsetting in current and prior year.

Loans and receivables

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Policy loans of R1 474 million (2015: R1 444 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

50 CREDIT RISK *continued*

Credit quality

The assets in the group's maximum exposure table on page 209 are analysed in the table below, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Moody's, S&P and GCR.

Rating definitions

AAA National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.

AA National ratings denote a very strong credit risk relative to all other issuers.

A National ratings denote a strong credit risk relative to all other issuers.

BBB National ratings denote an adequate credit risk relative to all other issuers.

BB National ratings denote a fairly weak credit risk relative to all other issuers.

B National ratings denote a significantly weak credit risk relative to all other issuers.

CCC National ratings denote an extremely weak credit risk relative to other issuers.

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

2016	AAA Rm	AA Rm	A Rm	BBB Rm	BB ² Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	36 188	9 042	1 217	112	–	–	330	46 889
Debt securities – other debt instruments	9 961	34 791	12 613	2 470	1 929	459	2 285	64 508
Cash and cash equivalents and funds on deposit	1 037	38 624	3 841	2 656	2	68	1 617	47 845
Derivative financial instruments	288	1 494	125	–	–	–	70	1 977
Held-to-maturity	78	–	–	–	–	–	44	122
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	7 185	7 185
Other receivables	–	–	–	–	–	–	4 243	4 243
Unit-linked investments ¹	–	–	–	–	–	–	22 070	22 070
Past due or impaired assets	–	–	–	–	–	–	205	205
	47 552	83 951	17 796	5 238	1 931	527	38 049	195 044

¹ Refer to page 244 for detail on unit-linked investments and page 208 for credit risk management relating to unit-linked investments.

² ABIL and its various subsidiaries were placed under curatorship during the prior year. These instruments were replaced and are classified as BB.

50 **CREDIT RISK** *continued*
Credit quality *continued*

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

¹ Refer to page 244 for detail on unit-linked investments and page 208 for credit risk management relating to unit-linked investments.

² ABIL and its various subsidiaries were placed under curatorship during the current year. These instruments were classified as CCC in the prior year.

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:

Reinsurer	2016		2015	
	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	22%	AA	24%	AA
General Cologne Re	17%	AA	22%	AA
Hannover Re	4%	AA	5%	AA
RGA Re	5%	AA	6%	AA
Munich Re	16%	AA	18%	AA
Other	35%	A	25%	A
	100%		100%	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

50 CREDIT RISK *continued*

Credit quality *continued*

Credit quality of reinsurers *continued*

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

	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
2016					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	82	64	44	21	211
Accounts receivable	1 895	502	116	–	2 513
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	482	164	5	19	670
	2 459	730	165	40	3 394
2015					
Securities designated at fair value through income ¹					
Debt securities – other debt instruments	225	485	–	–	710
Unit-linked investments	1	–	–	–	1
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	247	123	96	8	474
Accounts receivable	874	232	100	7	1 213
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	1 027	10	–	19	1 056
	2 374	850	196	34	3 454

¹ The securities designated at fair value through income in the prior year is related to the ABIL instruments that have matured but had not yet been repaid. These instruments have since been sold in the current year.

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.

51 VALUATION TECHNIQUES *continued*

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to pages 218 and 219 for details of the instruments split into the different levels.

Instrument	Valuation basis	Main assumptions
<i>Equities and similar securities</i> – Listed, local and foreign	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
<i>Stock and loans to other public bodies</i> – Listed, local	Yield of benchmark (listed government) bond	Market input
– Listed, foreign	Discounted cash flow (DCF), benchmarked against similar instrument with the same issuer	Market input
– Unlisted	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread
<i>Other debt securities</i> – Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	Published price quotations external valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, bank and credit default swap curves, government bond yield curve plus a spread, three-month JIBAR plus fixed spread), external valuations	Market input and appropriate spread
<i>Funds on deposit and other money market instruments</i> – Listed	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)
<i>Unit-linked investments</i>	External valuations	Net asset value (assets and liabilities are carried at fair value)
<i>Derivative assets and liabilities</i>	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
<i>Subordinated call notes (Liability)</i>	Price quotations on JSE interest rate market (which are based on yield of benchmark bond)	Market input
<i>Carry positions (Liability)</i>	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input
<i>Preference shares (Liability)</i>	Capital outstanding plus accrued dividends	Contract input

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

51 VALUATION TECHNIQUES *continued*

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

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

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value	
Securities designated at fair value through income Equity securities	Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
		Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities Stock and loans to government and other public bodies	Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Unlisted	Discounted cash flow	Nominal interest rate	8.51% to 9.99% (2015: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments	Local listed	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets, the greater the fair value
		Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Unlisted	Discounted cash flow	Nominal interest rate	7.56% to 11.5% (2015: 6.73% to 10.69%); 5.45% to 17.11% (2015: 7.38% to 13.09%)	The higher the nominal interest rate, the lower the fair value of the assets
		Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
		Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value

51 VALUATION TECHNIQUES *continued*

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

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Unit-linked investments Collective investment schemes				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted quoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation
Financial liabilities	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities designated at fair value through income				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	Discounted cash flow	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted embedded value	Could vary significantly based on the risks associated with the investee	The higher the embedded value, the greater the fair value

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

51 VALUATION TECHNIQUES *continued*

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

2016	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Securities designated at fair value through income	258 571	109 983	5 076	373 630
Equity securities				
Local listed	84 750	261	–	85 011
Foreign listed	21 633	953	34	22 620
Unlisted	–	24	219	243
Debt securities				
Stock and loans to government and other public bodies				
Local listed	31 696	9 727	–	41 423
Foreign listed	904	1 410	24	2 338
Unlisted	–	3 064	64	3 128
Other debt instruments				
Local listed	350	25 058	5	25 413
Foreign listed	17	660	–	677
Unlisted	–	36 547	1 871	38 418
Funds on deposit and other money market instruments	–	18 697	–	18 697
Unit-linked investments				
Collective investment schemes ¹				
Local unlisted or listed quoted	83 623	1 380	–	85 003
Foreign unlisted or listed quoted	35 402	112	27	35 541
Foreign unlisted unquoted	–	504	571	1 075
Other unit-linked investments				
Local unlisted or listed quoted	196	7 408	2	7 606
Local unlisted unquoted	–	4 178	2 243	6 421
Foreign unlisted unquoted	–	–	16	16
Investments in associates designated at fair value through income ¹	10 483	16	–	10 499
Derivative financial instruments	115	1 862	–	1 977
Held for trading	115	1 862	–	1 977
Available-for-sale	113	12	–	125
Equity securities				
Local listed	65	–	–	65
Foreign listed	48	–	–	48
Unit-linked investments				
Local unlisted or listed quoted	–	12	–	12
Non-financial assets				
Owner-occupied properties	–	–	3 112	3 112
Investment properties	–	–	7 422	7 422
Non-current assets held for sale	–	–	470	470
	269 282	111 873	16 080	397 235

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

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

51 VALUATION TECHNIQUES *continued*

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

¹ Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price. ABIL retention funds have been classified as level 3.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

51 VALUATION TECHNIQUES *continued*

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

	Financial instruments										Total Rm
	Designated at fair value through income					Available-for-sale			Non-financial instruments		
	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Investments in associates Rm	Unit-linked investments Rm	Equity securities Rm	Owner-occupied properties Rm	Investment properties Rm	Investment properties Rm	Investment properties Rm	
2016	231	3 798	2 533	82	4	3 030	7 212	16 890			
Opening balance											
Total (losses)/gains in net realised and fair value gains in the income statement	(17)	32	2	—	—	—	(7)	10			
Realised (losses)/gains	22	211	458	(5)	—	8	313	1 007			
Unrealised gains/(losses)	—	—	—	—	—	127	—	127			
Total gains in other comprehensive income	—	—	—	—	—	127	—	127			
Depreciation and impairment on owner-occupied properties	—	—	—	—	—	(74)	—	(74)			
Accrued interest in investment income in the income statement	—	90	—	—	—	—	—	90			
Purchases	76	696	301	—	—	33	675	1 781			
Sales	(88)	(860)	(270)	—	(4)	(12)	(301)	(1 535)			
Settlements	—	(612)	(42)	—	—	—	—	(654)			
Transfer to non-current assets held for sale	—	—	—	—	—	—	(470)	(470)			
Transfers into level 3	36	5	2	—	—	—	—	43			
Transfers out of level 3 ¹	(7)	(1 396)	(125)	(77)	—	—	—	(1 605)			
Closing balance	253	1 964	2 859	—	—	3 112	7 422	15 610			

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

51 VALUATION TECHNIQUES *continued*

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

¹ Includes funds on deposit and other money market instruments.

² The group's holdings in the various debt and equity instruments of ABIL, and its various subsidiaries, were transferred from levels 1 and 2 to 3 on 1 January 2015, subsequent to the placing into curatorship of the African Bank Group and the suspension of these securities by the JSE Ltd.

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 036 million (2015: R339 million) for the group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

51 VALUATION TECHNIQUES *continued*

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

	Financial instruments					Total Rm
	Designated at fair value through income			Available-for-sale		
	Equity securities Rm	Debt securities ¹ Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Equity securities Rm	
2016						
Carrying value	253	1 964	2 859	–	–	5 076
Assumption change	10% increase/(decrease) in markets	1% increase/(decrease) in interest rates	10% increase/(decrease) in unit price	N/A	N/A	
Effect of increase in assumption	25	25	286	N/A	N/A	
Effect of decrease in assumption	(25)	(21)	(286)	N/A	N/A	
2015						
Carrying value	231	3 798	2 533	82	4	6 648
Assumption change	10% increase/(decrease) in markets	1% increase/(decrease) in interest rates	10% increase/(decrease) in unit price	Not sensitive	Not sensitive	
Effect of increase in assumption	23	6	253	N/A	N/A	
Effect of decrease in assumption	(23)	1	(253)	N/A	N/A	

¹ June 2015 includes funds on deposit and other money market instruments.

² For the sensitivities relating to Owner-occupied properties and Investment properties, please refer to note 2 and note 4 respectively.

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2016				
Investment contracts designated at fair value through income	1 042	231 672	76	232 790
Financial liabilities designated at fair value through income	25 987	12 035	352	38 374
Collective investment scheme liabilities	25 987	147	234	26 368
Subordinated call notes	–	3 557	–	3 557
Carry positions	–	7 313	–	7 313
Preference shares	–	1 018	–	1 018
Other borrowings	–	–	118	118
Derivative financial instruments	29	2 068	–	2 097
Held for trading	29	2 068	–	2 097
	27 058	245 775	428	273 261
2015				
Investment contracts designated at fair value through income	965	219 247	144	220 356
Financial liabilities designated at fair value through income	24 322	14 289	1 109	39 720
Collective investment scheme liabilities	24 322	583	964	25 869
Subordinated call notes	–	3 320	–	3 320
Carry positions	–	9 370	–	9 370
Preference shares	–	1 016	–	1 016
Other borrowings	–	–	145	145
Derivative financial instruments	163	1 948	–	2 111
Held for trading	163	1 948	–	2 111
	25 450	235 484	1 253	262 187

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

51 VALUATION TECHNIQUES *continued*

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

2016	Financial liabilities designated at fair value through income			Total Rm
	Investment contracts Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	
Opening balance	144	964	145	1 253
Total (gains)/losses in net realised and fair value gains in the income statement				
Realised (gains)/losses	(1)	1	–	–
Unrealised losses/(gains)	4	128	(7)	125
Total losses in other comprehensive income	–	23	–	23
Issues	–	8	9	17
Sales	–	(10)	–	(10)
Settlements	–	(826)	(29)	(855)
Contract holder movements				
Benefits paid	(76)	–	–	(76)
Investment return	5	–	–	5
Transfers out of level 3	–	(54)	–	(54)
Closing balance	76	234	118	428
2015				
Opening balance	153	40	58	251
Business combinations (refer to note 38)	–	–	4	4
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	1	189	–	190
Unrealised losses/(gains)	4	(11)	–	(7)
Issues	–	53	117	170
Settlements	–	(98)	(34)	(132)
Contract holder movements				
Benefits paid	(19)	–	–	(19)
Investment return	5	–	–	5
Transfers into level 3 ¹	–	791	–	791
Closing balance	144	964	145	1 253

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

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R39 million and R39 million (2015: R117 million and R118 million), respectively.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

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:

	2016		2015	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Assets				
Held-to-maturity financial instruments	122	122	73	73
Loans and receivables	7 390	7 416	7 652	7 666
Loans	2 557	2 583	2 359	2 373
Accounts receivable	3 937	3 937	2 790	2 790
Unsettled trades	896	896	2 503	2 503
Cash and cash equivalents	29 148	29 148	26 174	26 174
	36 660	36 686	33 899	33 913

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 R293 million (2015: R328 million) is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 12% (2015: 12%).
- For policy loans, the fair value of R1 287 million (2015: R1 258 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 9.2% (2015: 8.6%).
- 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:

	2016		2015	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Liabilities				
Investment contracts with DPF	25 195	25 195	26 134	26 134
Amortised cost	1 058	1 471	1 092	1 772
Cumulative redeemable preference shares	275	688	293	973
Finance lease liabilities	1	1	2	2
Other	782	782	797	797
Other payables	12 948	12 948	11 835	11 828
Payables arising from investment contracts	157	157	1 451	1 451
Other payables	12 791	12 791	10 384	10 377
	39 201	39 614	39 061	39 734

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 2016, the expected cash flows were discounted at a current market rate of 12% (2015: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder (*level 2*).
- For 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.

MMI HOLDINGS LTD ANNUAL FINANCIAL STATEMENTS 30 JUNE 2016

Statement of financial position	226
Income statement	226
Statement of other comprehensive income	227
Statement of changes in equity	227
Statement of cash flows	228
Notes to the financial statements	229
Annexure A – Significant subsidiary companies	240
Annexure B – Unconsolidated structured entities	244
Shareholder profile	247
Stock exchange performance	248
Shareholder diary	249
Notice of Annual General Meeting	250
Report by the social, ethics and transformation committee	256
Form of proxy (attached)	
Administration	IBC

INTRODUCTION

ABOUT US

PERFORMANCE

GOVERNANCE

REMUNERATION

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
ASSETS			
Equipment ¹	–	–	2
Interest in subsidiary companies	21 792	21 137	3
Financial instruments	1 413	1 205	
Loans and receivables	1 413	1 205	4
Current income tax asset	1	–	11.1
Cash and cash equivalents	33	69	5
Total assets	23 239	22 411	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	17 580	17 563	6
Other components of equity	55	55	
Retained earnings	4 779	4 414	
Total equity	22 414	22 032	
LIABILITIES			
Financial instruments	275	293	
Amortised cost	275	293	7
Employee benefit obligations	23	23	9
Other payables	527	62	10
Current income tax liability	–	1	11.1
Total liabilities	825	379	
Total equity and liabilities	23 239	22 411	

¹ Amount rounds down to less than R1 million.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
Investment income	2 905	3 811	12
Net realised and fair value gains	–	35	13
Net income	2 905	3 846	
Impairment reversals	(46)	(28)	14
Employee benefit expenses	31	53	15
Other expenses	34	232	16
Expenses	19	257	
Results of operations	2 886	3 589	
Finance costs	(41)	(44)	17
Profit before tax	2 845	3 545	
Income tax	(11)	(20)	11.2
Earnings for year attributable to owners of the company	2 834	3 525	

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
Earnings for year	2 834	3 525
Other comprehensive income for year, net of tax	–	–
Total comprehensive income for year attributable to owners of the company	2 834	3 525

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2014	17 543	3 996	55	21 594	
Total comprehensive income	–	3 525	–	3 525	
Dividend paid	–	(3 107)	–	(3 107)	
Conversion of preference shares	20	–	–	20	6
Balance at 1 July 2015	17 563	4 414	55	22 032	
Total comprehensive income	–	2 834	–	2 834	
Dividend paid	–	(2 469)	–	(2 469)	
Conversion of preference shares	17	–	–	17	6
Balance at 30 June 2016	17 580	4 779	55	22 414	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(103)	(249)	18.1
Dividends received	2 827	3 723	12
Interest received	78	85	12
Income tax paid	(13)	(18)	18.2
Interest paid	(41)	(44)	18.3
Net cash inflow from operating activities	2 748	3 497	
Cash flow from investing activities			
Disposal of assets designated at fair value through income	–	1 364	
Investments in subsidiary companies	(1 008)	(110)	
Decrease/(increase) in loans to related parties	693	(1 835)	
Net cash outflow from investing activities	(315)	(581)	
Cash flow from financing activities			
Dividends paid	(2 469)	(3 107)	
Net cash outflow from financing activities	(2 469)	(3 107)	
Net cash flow	(36)	(191)	
Cash and cash equivalents at beginning	69	260	
Cash and cash equivalents at end	33	69	5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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.

	2016 Rm	2015 Rm
2 EQUIPMENT		
Cost	1	1
Accumulated depreciation	(1)	(1)
Carrying amount ¹	–	–
¹ Amount in prior year rounds down to less than R1 million.		
Equipment comprises furniture and fittings and computer equipment.		
3 INTEREST IN SUBSIDIARY COMPANIES		
Cost less impairment	20 667	19 659
Loans to subsidiary companies (Annexure A)	1 125	1 478
	21 792	21 137
Opening balance	21 137	19 969
Cost of interest in subsidiaries acquired	1 008	110
Plus: reversal of impairment charge	–	136
Movements in loans to subsidiary companies	(353)	922
Closing balance	21 792	21 137

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.

Additional shares in subsidiaries acquired

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R374 million during the current year (2015: R70 million).

MMI Strategic Investments (Pty) Ltd (MMISI): The company acquired additional shares in MMISI for R179 million during the current year (2015: R40 million).

Eris Property Group (Pty) Ltd (Eris): The company acquired additional shares in Eris for R145 million during the current year.

Metropolitan Health (Pty) Ltd (MH): The company acquired additional shares in MH for R300 million during the current year.

Momentum Retirement Administrators (Pty) Ltd (MRA): The company acquired additional shares in MRA for R10 million during the current year.

Impairment

The company reversed the impairment of R136 million of the capitalised loan to MMI Finance Company (Pty) Ltd in the prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
4 LOANS AND RECEIVABLES		
Accounts receivable	4	2
Loans to related parties	1 408	1 202
Loans to subsidiary companies (Annexure A)	1 182	982
Less: provision for impairment on loans to subsidiary companies	(225)	(271)
Loans to associates	11	11
Less: provision for impairment on loans to associates	(3)	(3)
Preference shares	58	64
Empowerment partners	385	419
Strategic unsecured loans	1	1
	1 413	1 205
Current	1 360	1 147
Non-current	53	58
	1 413	1 205
Reconciliation of provision for impairment		
Opening balance	274	166
(Reversals)/additional provisions for current year (refer to note 14)	(46)	108
Closing balance	228	274

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. 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 loans to associates include a loan to C Shell 448 (Pty) Ltd for R10 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods. The carrying value approximates fair value.
- Preference shares:

MMI Holdings Ltd acquired preference shares in Eris for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R7 million (2015: R7 million). The preference shares have a term of five years from issue date. The carrying value approximates fair value.
- 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 KTH. 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 R66 million (2015: R83 million) to a subsidiary of KTH, with a repayment date of between five and ten 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 R285 million (2015: R303 million) at 30 June 2016, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.

The fair value of loans to empowerment partners approximates the carrying value as the repayment dates are within one year.

Impairment

Impairment of R46 million on loans to subsidiary companies was reversed in the current year. In the prior year the loans to subsidiary companies were impaired by R108 million.

	2016 Rm	2015 Rm
5 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	33	69

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

6 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

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

Number of shares in issue (million)	2016	2015
Opening balance	1 572	1 570
Conversion of preference shares	2	2
Closing balance	1 574	1 572

Share capital and share premium	Rm	Rm
Opening balance	17 563	17 543
Conversion of preference shares	17	20
Closing balance	17 580	17 563

On 1 October 2015 and 5 April 2016, 992 371 and 891 064 A3 preference shares, respectively, were converted into ordinary shares.

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

	2016 Rm	2015 Rm
7 FINANCIAL LIABILITIES AT AMORTISED COST		
Cumulative redeemable convertible preference shares	275	293
Current	275	11
Non-current	–	282
	275	293

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

The estimated fair value of the cumulative redeemable preference shares is R687 million (2015: R972 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2016, the expected cash flows were discounted at a current market rate of 11% (2015: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder (*level 2*).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
8 DEFERRED INCOME TAX		
Deferred tax asset	4	3
Tax losses and credits	4	3
Deferred tax liability	(4)	(3)
Revaluations	(4)	(3)
	–	–
<i>Movement in deferred tax</i>		
Balance at beginning	–	–
Charge to income statement	–	–
Revaluations	(78)	(148)
Tax losses and credits	78	148
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 R17 million (2015: R14 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.		
9 EMPLOYEE BENEFIT OBLIGATIONS		
Cash-settled scheme	4	15
Subsidiary share scheme	11	–
Leave pay	1	1
Staff and management bonuses	7	7
	23	23
Current	10	16
Non-current	13	7
	23	23
Cash-settled scheme – long-term incentive plan		
Balance at beginning	15	27
Unutilised amounts reversed	(7)	(1)
Benefits paid	(4)	(11)
Balance at end	4	15
Subsidiary share schemes		
Balance at beginning	–	–
Interest expense	1	–
Actuarial gains	(5)	–
Current service costs	15	–
Balance at end	11	–

9 EMPLOYEE BENEFIT OBLIGATIONS *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).

	2016 MMI LTIP '000	2015 MMI LTIP '000
Number of units outstanding		
At beginning of year	924	1 843
Units granted during year	198	347
Units transferred from/(to) other companies	23	(108)
Units exercised/released during year	(179)	(299)
Units cancelled/lapsed during year	(651)	(859)
At end of year	315	924
Performance units	181	650
Retention units	134	274
	315	924
Inputs used in valuation of the MMI LTIP		
Current vesting rate	100%	100%
Share price at reporting date	R22.64	R30.15
Inputs used in valuation of the subsidiary share scheme		
Risk-free rates	10.1%	8.6%
Growth rate	12.3%	10.4%
Forfeiture rate	5%	5%

	2016 Rm	2015 Rm
10 OTHER PAYABLES		
Other payables	26	62
Loans from subsidiary companies (Annexure A)	501	–
	527	62
Current	527	62

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
11 INCOME TAX		
11.1 Current income tax (asset)/liability		
<i>Movement in (asset)/liability</i>		
Balance at beginning	1	(1)
Charged to income statement	11	20
Paid during year	(13)	(18)
Balance at end	(1)	1
11.2 Income tax expense		
Current taxation		
Current year		
South African normal tax	2	5
Foreign countries – withholding tax	9	15
	11	20

	2016 %	2015 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Foreign tax	0.3	0.4
Non-taxable items	(27.9)	(30.3)
Non-deductable expenses	–	2.4
Effective rate	0.4	0.5

	2016 Rm	2015 Rm
12 INVESTMENT INCOME		
Designated at fair value through income		
Dividends received – listed equities	–	35
Dividends received – subsidiary companies	2 827	3 688
Interest income	78	85
Loans and receivables	70	69
Cash and cash equivalents	8	16
Other income	–	3
	2 905	3 811
13 NET REALISED AND FAIR VALUE GAINS		
Designated at fair value through income	–	35

The equity securities were sold in the prior year.

	2016 Rm	2015 Rm
14 IMPAIRMENT (REVERSALS)/EXPENSES		
Impairment of loans to subsidiary companies	43	108
Reversal of impairment of loans to subsidiary companies	(89)	–
Reversal of impairment of loans capitalised to subsidiary companies	–	(136)
	(46)	(28)
15 EMPLOYEE BENEFIT EXPENSES		
Salaries	26	52
Defined contribution retirement fund	1	1
Cash-settled share-based payment expenses	(7)	(1)
Subsidiary share scheme expenses	11	–
Training costs	–	1
	31	53
Executive directors' emoluments included above.	22	38
Details of the staff share schemes are disclosed in note 21.2 of the group financial statements.		
16 OTHER EXPENSES		
Asset management fees ¹	–	3
Auditors' remuneration ¹	–	–
Consulting fees	3	3
Management fees	9	169
Marketing costs	3	3
Office costs ¹	–	32
Other expenses	15	19
Other indirect taxes	4	3
	34	232
Non-executive directors' emoluments included in other expenses above.	15	12
¹ Amount rounds down to less than R1 million.		
17 FINANCE COST		
Interest expense on liabilities at amortised cost		
Redeemable preference shares	41	41

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Rm	2015 Rm
18 CASH FLOW FROM OPERATING ACTIVITIES		
18.1 Cash utilised in operations		
Profit before tax	2 845	3 545
Adjusted for		
Items disclosed elsewhere		
Dividend received	(2 827)	(3 723)
Interest received	(78)	(85)
Finance costs	41	44
Non-cash-flow items		
Reversal of impairment	(46)	(28)
Net realised and fair value gains	–	(35)
Employee benefit obligations	4	(1)
Changes in operating assets and liabilities		
Loans and receivables	(2)	(2)
Employee benefit obligations	(4)	(4)
Other operating liabilities	(36)	40
	(103)	(249)
18.2 Income tax paid		
Due at beginning	(1)	1
Charged and provided	(11)	(20)
Due at end	(1)	1
	(13)	(18)
18.3 Interest paid		
Redeemable preference shares		
Paid 30 September	(21)	(22)
Paid 31 March	(20)	(22)
	(41)	(44)

19 RELATED PARTY TRANSACTIONS

19.1 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 247 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include KTH, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 25% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

19.2 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.

19.3 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 4.

19 RELATED PARTY TRANSACTIONS *continued*

19.3 Transactions with related parties *continued*

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

	2016 Rm	2015 Rm
Administrative charges – MMI Group Ltd	9	166
Asset management fee expense – Momentum Asset Management (Pty) Ltd	3	3
Dividends from subsidiaries – MMI Group Ltd	2 723	3 548
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	8	–
Dividends from subsidiaries – Metropolitan Lesotho Ltd	55	90
Dividends from subsidiaries – Metropolitan Asset Managers Ltd	4	13
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	37	–
Dividends from subsidiaries – Metropolitan Collective Investments Ltd	–	5
Dividends from subsidiaries – Momentum Retirement Administrators (Pty) Ltd	–	2
Dividends from subsidiaries – Metropolitan Life International Ltd	–	30
Interest received – MMI Group Ltd	33	31
Interest received – Eris Property Fund (Pty) Ltd	7	7
Interest received – KTH	5	6
Interest received – Off the Shelf Investments (Pty) Ltd	25	25
Finance cost – KTH	41	44

Refer to note 4 for loans and receivables with related parties.

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

20 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.

21 CAPITAL COMMITMENTS

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

22 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

22 RISK MANAGEMENT POLICIES *continued*

22.1 Classes of assets and liabilities

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

	2016 Rm	2015 Rm
Assets		
Loans and receivables	1 413	1 205
Loans	1 409	1 203
Accounts receivable	4	2
Cash and cash equivalents	33	69
Other assets	21 793	21 137
Total assets	23 239	22 411
Liabilities		
Amortised cost	275	293
Cumulative redeemable preference shares	275	293
Other payables	527	62
Loans from subsidiary companies	501	–
Other payables	26	62
Other liabilities	23	24
Total liabilities	825	379

22.2 Credit risk

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

The credit risk of the company is managed similarly to that of the group as disclosed in note 50 in the group financial statements.

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

	2016 Rm	2015 Rm
Loans and receivables	1 413	1 205
Loans	1 409	1 203
Accounts receivable	4	2
Cash and cash equivalents	33	69
Total assets bearing credit risk	1 446	1 274

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 4.

Using Fitch ratings (or the equivalent thereof when Fitch ratings are not available), cash and cash equivalents have an AA (2015: AA) credit rating. Loans and receivables consist mainly of loans to related parties and is unrated.

22.3 Liquidity risk

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

22 RISK MANAGEMENT POLICIES *continued*

22.3 Liquidity risk *continued*

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 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.

The following table indicates the maturity analysis of the liabilities:

2016	Carrying value Rm	Undiscounted cash flows		
		Total Rm	0 to 1 year Rm	1 to 5 years Rm
Amortised cost				
Cumulative redeemable preference shares	275	315	315	–
Other payables	527	527	527	–
Other liabilities	23	23	10	13
Total liabilities	825	865	852	13
2015				
Amortised cost				
Cumulative redeemable preference shares	293	378	43	335
Other payables	62	62	62	–
Other liabilities	24	24	17	7
Total liabilities	379	464	122	342

22.4 Market risk

Introduction

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

22.4.1 Interest rate risk

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

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The company is exposed to floating interest rates that result in cash flow interest rate risk. Loans and receivables (empowerment loans) have a weighted average interest rate of 8.5% (2015: 8.5%). Cash and cash equivalents have a weighted average interest rate of 5% (2015: 5%).

22.4.2 Sensitivity to market risks

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

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

The company has no foreign currency exposure.

ANNEXURE A

SIGNIFICANT SUBSIDIARY COMPANIES

Companies	Country of incorporation, where not South Africa	Interest held		Cost		Loans capitalised	
		2016 %	2015 %	2016 Rm	2015 Rm	2016 Rm	2015 Rm
MMI Group Ltd		100	100	18 119	18 096	–	–
<i>Subsidiary companies</i>							
Momentum Finance Company (Pty) Ltd		100	100				
Momentum Alternative Insurance Ltd		100	100				
Momentum Ability Ltd		100	100				
MMI Health (Pty) Ltd (previously Momentum Medical Scheme Administrators (Pty) Ltd)		100	100				
Momentum Consult (Pty) Ltd		100	100				
Momentum Life Botswana Ltd	Botswana	100	100				
Momentum Asset Management (Pty) Ltd		100	100				
Momentum Global Investment Management Ltd	United Kingdom	100	100				
Momentum Collective Investments (RF) (Pty) Ltd		100	100				
Momentum Alternative Investments (Pty) Ltd		100	100				
Momentum International MultiManagers (Pty) Ltd		100	100				
Momentum Wealth (Pty) Ltd		100	100				
Momentum Wealth International Ltd	Guernsey	100	100				
102 Rivonia Road (Pty) Ltd		80	80				
Momentum Short-Term Insurance Company Ltd		100	100				
MMI Short Term Insurance Administration (Pty) Ltd		100	100				
Momentum Interactive (Pty) Ltd		100	100				
Metropolitan Odyssey Ltd		100	100	36	36	–	–
Metropolitan International Holdings (Pty) Ltd		100	100	1 237	864	523	483
<i>Subsidiary companies</i>							
MMI Holdings Namibia Ltd	Namibia	96.5	96.5				
Cold Trade (Pty) Ltd	Namibia	100	100				
Metropolitan Life (Mauritius) Ltd	Mauritius	70	70				
Metropolitan Life Zambia Ltd	Zambia	100	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	100	50				
Metropolitan Life Insurance Kenya Ltd	Kenya	96	96				
Cannon Assurance Ltd	Kenya	96	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	100	100				
Metropolitan Life Swaziland Ltd	Swaziland	67	67				
Metropolitan Insurance (Swaziland) Ltd	Swaziland	100	100				
Metropolitan International Support (Pty) Ltd		100	100	–	–	116	116
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	66.7	66.7				
Subtotal				19 392	18 996	639	599

Companies <i>continued</i>	Country of incorporation, where not South Africa	Interest held		Cost		Loans capitalised	
		2016 %	2015 %	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Subtotal carried forward				19 392	18 996	639	599
Momentum Mozambique LDA	Mozambique	66.7	66.7				
MMI Finance Company (Pty) Ltd		100	100	400	400	234	237
Metropolitan Life International Ltd		100	100	47	47	–	–
Metropolitan Life of Botswana Ltd	Botswana	100	100	73	73	–	–
Metropolitan Lesotho Ltd	Lesotho	100	100	120	120	–	–
Momentum Retirement Administrators (Pty) Ltd		100	80	38	28	–	–
MMI Strategic Investments (Pty) Ltd		100	100	232	52	–	–
<i>Subsidiary companies</i>							
Momentum SP Reid Securities (Pty) Ltd (previously Imara SP Reid (Pty) Ltd)		100	100				
Momentum Outcome-Based Solutions (Pty) Ltd		100	100				
Guardrisk Life Ltd		100	100				
Guardrisk Life International Ltd	Mauritius	100	100				
Guardrisk Allied Products & Services (Pty) Ltd		100	100				
Guardrisk Insurance Company Ltd		100	100				
Guardrisk International Ltd PCC	Mauritius	100	100				
MMI Holdings UK Ltd	United Kingdom	100	100				
Euroguard Insurance Company PCC Ltd	Gibraltar	100	100				
Momentum Financial Technology Ltd	United Kingdom	100	100				
Financial Partners Ltd	Hong Kong	100	100				
Metropolitan Asset Managers Ltd		100	100	–	23	–	–
MET Collective Investments (RF) (Pty) Ltd		100	100	26	26	–	–
Eris Property Group (Pty) Ltd		76.3	54.3	407	262	–	–
Metropolitan Health (Pty) Ltd		100	100	332	32	252	642
<i>Subsidiary companies</i>							
Metropolitan Health Corporate (Pty) Ltd		100	100				
MetHealth (Pty) Ltd		100	100				
Metropolitan Health Risk Management (Pty) Ltd		100	100				
CareCross (Pty) Ltd		100	100				
Occupational Care South Africa (Pty) Ltd		100	51				
Global Doctor Networks (Pty) Ltd		81.2	81.2				
Hello Doctor (Pty) Ltd		100	100				
Momentum Trust Ltd		100	100	8	8	–	–
Less: impairments				(408)	(408)	–	–
Total interest in subsidiary companies				20 667	19 659	1 125	1 478

ANNEXURE A CONTINUED

Other loans to/(from) subsidiaries	2016 Rm	2015 Rm
MMI Strategic Investments (Pty) Ltd	781	324
MMI Infrastructure and Operations (Pty) Ltd	221	266
MMI Short Term Insurance Administration (Pty) Ltd	–	175
MMI Health (Pty) Ltd	132	132
Metropolitan Capital (Pty) Ltd	46	46
MetHealth (Pty) Ltd	–	31
MMI Group Ltd	–	6
Union Money (Pty) Ltd	2	2
	1 182	982
Less: impairments	(225)	(271)
Loans to subsidiary companies	957	711
MMI Group Ltd	(497)	–
Metropolitan Life of Botswana Ltd	(4)	–
Loans from subsidiary companies	(501)	–

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

SIGNIFICANT CIS SUBSIDIARY COMPANIES	Interest held		Carrying value	
	2016 %	2015 %	2016 Rm	2015 Rm
Momentum IF Global Equity Class A USD Fund	67.2	70.4	13 052	14 475
Momentum MF Global Aggressive Sub Fund	100	100	5 651	6 108
Momentum MF Global Balanced A USD Fund	100	100	5 595	6 832
Momentum Money Market Fund	47.1	37.9	4 337	3 815
Momentum Balanced Fund	75.3	76.5	3 476	3 522
Momentum MoM Ultra Long-Term Value Fund	100	99.9	2 985	2 784
Momentum Global Growth Fund IC Ltd	96.9	94.7	2 153	2 198
Fairtree Equity Prescient Fund	74.0	*	2 009	*
Momentum MoM Macro Value Fund	100	100	1 954	2 007
Truffle MET Institutional Equity Fund	77.8	*	1 918	*
Momentum MoM Property Equity Fund	99.9	99.9	1 895	1 841
Momentum IF Global Fixed Income A USD Fund	97.8	97.7	1 753	1 429
Momentum MoM Emerging Manager Growth Fund	100	100	1 750	1 435
Momentum MoM Specialist Equity Fund	100	100	1 692	1 541
Momentum MoM High Growth Fund	100	100	1 591	2 271
Momentum MoM Real Return Fund	100	100	1 510	1 411
Momentum Best Blend Balanced Fund of Funds	76.1	75.8	1 271	1 066
Momentum Best Blend Multifocus Fund of Funds	98.6	99.7	1 231	1 469
Momentum IF Global Emerging Markets A USD Fund	96.4	95.7	1 101	1 116
Momentum Bond Fund	79.7	68.7	1 033	754
Momentum MF Global Moderate Sub Fund	100	100	955	1 178
Momentum Best Blend Flexible Income Fund	88.0	87.4	941	750
Ampersand Momentum CPI Plus 4% Fund of Funds	59.6	59.2	924	916
Ampersand Momentum Equity Fund	100	100	903	892
Momentum Factor 7 Fund of Funds	73.9	69.8	819	601
Momentum International Equity Feeder Fund	58.5	55.1	798	726
Ampersand Momentum CPI Plus 2% Fund of Funds	53.4	53.4	783	677
Momentum MF International Equity A USD Fund	100	100	725	855
Momentum Global Managed Fund IC Ltd	91.3	94.7	725	663
Momentum Best Blend Specialist Equity Fund	58.8	56.7	720	764
Momentum Factor 5 Fund of Fund	64.9	*	673	*
Momentum MoM Active Bond Fund (B1)	94.5	100	636	653
VPFP International Growth Fund IC Ltd	70.5	69.6	556	533
Saffron MET Inflation Linked Bond	99.9	99.9	555	534
Ampersand Momentum Flexible Property Income Fund	99.8	*	533	*
Momentum Property Fund	49.7	59.6	503	624
Momentum Optimal Yield Fund	96.5	*	502	*
Momentum GF Global Franchise Fund	*	98.1	*	522

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

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

ANNEXURE B

UNCONSOLIDATED STRUCTURED ENTITIES

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

Collective investment schemes and other unit-linked investments

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

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the group is the policyholder of an investment contract issued by other insurance companies. Where the group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2016 Rm	2015 Rm
Collective investment schemes		
Local and foreign	132 119	122 297
Equity	84 318	96 217
Interest-bearing	18 277	15 828
Property	3 718	5 115
Mixed	23 867	3 371
Money market	1 898	1 732
Commodity	41	34
Other unit-linked investments	14 054	22 408
Local and foreign		
Equity	4 972	7 595
Interest-bearing	1 895	1 981
Mixed	6 392	11 691
Commodity	795	1 141
	146 173	144 705
Designated at fair value through income: unit-linked investments	135 662	132 330
Investments in associates designated at fair value through income	10 499	12 362
Available-for-sale: local unlisted quoted collective investment schemes	12	13
	146 173	144 705

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	Carrying value Rm	% interest held	Nature of relationship	Principal place of business
2016				
Momentum Enhanced Yield Fund	1 067	22.2%	Standard investment	Sandton
Momentum Income Plus Fund (A) ¹	575	23.8%	Standard investment	Sandton
Momentum Equity Fund ¹	546	19.3%	Standard investment	Sandton
2015				
Fairtree Equity Prescient Fund ²	1 677	75.8%	Standard investment	Bellville
Truffle MET Institutional Equity Fund ²	1 180	67.4%	Standard investment	Hyde Park
Momentum Enhanced Yield Fund	1 038	20.7%	Standard investment	Sandton

Summarised financial information relating to the associates above:

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

2015	Fairtree Equity Prescient Fund ² Rm	Truffle MET Institutional Equity Fund ² Rm	Momentum Enhanced Yield Fund Rm
Current assets	61	56	556
Non-current assets	1 965	1 412	4 594
Current liabilities	81	13	109
Non-current liabilities	–	1 455	4 662
Revenue	367	268	437
Earnings	306	230	379
Dividends received from associate	40	18	–

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

² This associate forms part of significant CIS subsidiaries in the current year. Refer to Annexure A.

ANNEXURE B CONTINUED

UNCONSOLIDATED STRUCTURED ENTITIES (continued)

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the group holds an interest. 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	
				2016 Rm	2015 Rm	2016 Rm	2015 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	334	1 034	27	72
Thekwini Fund 9 (Pty) Ltd	Floating rate note	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	641	633	54	34
Superdrive Investments (RF) Ltd	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	548	537	57	34
				1 523	2 204	138	140

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

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

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

SHAREHOLDER PROFILE

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors	11	0.6	9
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	2	25.0	401
Government Employees Pension Fund	7	7.9	127
Public			
Private investors	20 392	2.9	47
Pension funds	360	8.8	141
Collective investment schemes and mutual funds	4 670	38.7	620
Banks and insurance companies	178	9.0	145
Total	25 622	100.0	1 604

An estimated 406 million shares (2015: 457 million shares) representing 25.3% (2015: 28.5%) 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	21 299	83.1	22	1.4
5 001 – 10 000	1 774	6.9	13	0.8
10 001 – 50 000	1 623	6.3	35	2.2
50 001 – 100 000	319	1.3	23	1.4
100 001 – 1 000 000	455	1.8	137	8.5
1 000 001 and more	152	0.6	1 374	85.7
Total	25 622	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	25.0
Government Employees Pension Fund	127	7.9
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
Total	642	40.0

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 2016, are disclosed.

STOCK EXCHANGE PERFORMANCE

	2016	2015
12 months		
Value of listed shares traded (rand million)	25 614	19 153
Volume of listed shares traded (million)	1 057	642
Shares traded (% of average listed shares in issue)	67	41
Value of shares traded – life insurance (J857 – Rbn)	–	230
Value of shares traded – top 40 index (J200 – Rbn)	–	3 464
Trade prices		
Highest (cents per share)	3 149	3 475
Lowest (cents per share)	1 900	2 502
Last sale of period (cents per share)	2 264	3 015
Percentage (%) change during period	(25)	15
Percentage (%) change – life insurance sector (J857)	(6)	11
Percentage (%) change – top 40 index (J200)	–	–
30 June		
Price/diluted core headline earnings (segmental) ratio	11.3	12.6
Dividend yield % (dividend on listed shares)	6.9	5.1
Dividend yield % – top 40 index (J200)	2.9	3.0
Total shares issued (million)		
Ordinary shares listed on JSE	1 574	1 572
Treasury shares held on behalf of contract holders	(13)	(14)
Basic number of shares in issue	1 561	1 558
Treasury shares held on behalf of contract holders	13	14
Convertible redeemable preference shares	30	32
Diluted number of shares in issue¹	1 604	1 604
Market capitalisation at end (Rbn) ²	36	48

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.

Financial year-end	30 June	
Reporting	Interim results	3 March 2016
	Announcement of year-end results	7 September 2016
	Annual report published	30 September 2016
	Annual general meeting	22 November 2016
Ordinary dividends	Interim	
	Declared	2 March 2016
	Remat/Demat	24 March 2016 to 1 April 2016
	Record date	1 April 2016
	Paid	4 April 2016
	Final	
	Declared	6 September 2016
	Remat/Demat	28 September 2016 to 30 September 2016
	Record date	30 September 2016
	Paid	3 October 2016

NOTICE OF ANNUAL GENERAL MEETING

NOTICE TO MEMBERS OF THE 15TH (FIFTEENTH) ANNUAL GENERAL MEETING OF MMI HOLDINGS LIMITED (“MMI” OR THE “COMPANY”)

Notice is hereby given (the “notice”) that the 15th (fifteenth) annual general meeting (“AGM”) of the shareholders of the company, for the year ended 30 June 2016, will be held at 13:30 on Tuesday, 22 November 2016, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion. Registration for attendance at the AGM will commence at 12:30.

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 Serengeti VC Room, 1st Floor, Parc du Cap Building 7, 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 16:00 on Tuesday, 15 November 2016. The above-mentioned facility will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 15 November 2016 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 255 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, 23 September 2016, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 11 November 2016. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 11 November 2016, 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 Tuesday, 8 November 2016.

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 256 to 258.)
- presentation of the annual financial statements of the company for the financial year ended 30 June 2016 (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, for the ensuing financial year or until the next AGM, whichever is the later date
- approval of the appointment of the Audit Committee of the company
- to consider and, if deemed fit, to pass, with or without modification, the ordinary and special 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 DIRECTORS APPOINTED BY THE BOARD

Mr P Cooper was appointed by the board of directors of the company with effect from 20 November 2015 and Mr WM Krzychylkiewicz was appointed as an alternate director to Mr Cooper with effect from 21 July 2016. In accordance with the Companies Act, 71 of 2008, as amended (the "Act") and the memorandum of incorporation ("MOI") of the company, Messrs Cooper and Krzychylkiewicz resign and, being available, have offered themselves for election by shareholders of the company. Their brief curriculum vitae are presented on the MMI website www.mmiholdings.com.

Messrs Cooper and Krzychylkiewicz's performance and contribution were assessed by the MMI Nominations Committee as well as the board, and the board recommends Mr Cooper's election as a director of the company and Mr Krzychylkiewicz's election as an alternate director to Mr Cooper.

Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Mr Cooper as a director of the company and Mr Krzychylkiewicz as an alternate director to Mr Cooper.

Ordinary resolution 1.1

"Resolved as an ordinary resolution that Mr P Cooper be and is hereby elected as a director of the company with effect from 20 November 2015."

Ordinary resolution 1.2

"Resolved as an ordinary resolution that Mr WM Krzychylkiewicz be and is hereby elected as an alternate director to Mr P Cooper with effect from 21 July 2016."

EFFECT OF ORDINARY RESOLUTION NUMBER 1

If each ordinary resolution detailed in 1 above is passed, the effect will be that Mr Cooper will be appointed as a director of the company with effect from 20 November 2015 and Mr Krzychylkiewicz will be appointed as an alternate director to Mr Cooper with effect from 21 July 2016.

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 Messrs JC van Reenen, JP Burger, PJ Moleketi and LL von Zeuner retire by rotation in accordance with the MOI and, being eligible, all the aforementioned directors, with the exception of Mr JP Burger, 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 requested 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 Mr JC van Reenen 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 PJ Moleketi 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 Mr LL von Zeuner 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 Messrs JC van Reenen, PJ Moleketi and LL von Zeuner will be re-appointed as directors of the company with immediate effect. Mr JP Burger retires as a director with immediate effect.

3. ORDINARY RESOLUTION NUMBER 3

RE-APPOINTMENT OF EXTERNAL AUDITORS

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, for the ensuing financial year or until the next AGM, whichever is the later date.

Accordingly, the shareholders are requested to consider and vote on the following resolution:

“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, for the ensuing financial year or until the next AGM, whichever is the later date.”

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, for the ensuing financial year or until the next AGM, whichever is the later date.

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 Audit Committee members meet the provisions of the Act and that they are independent and therefore recommends their re-appointment.

Ordinary resolution 4.1

“Resolved as an ordinary resolution that the re-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 re-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 re-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 re-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 re-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 pages 65 to 72 of the integrated report and also on the company’s website 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 ORDINARY AND SPECIAL 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 issues, to implement the resolutions and to sign all documentation required to record the ordinary and special resolutions.

7. SPECIAL RESOLUTION NUMBER 1

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 by resolution, authorises the repurchase, confirms that the company has passed the solvency and liquidity test detailed in the Act in relation to the repurchase of securities, and confirms 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.”

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, 46 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 1

The **reason** for special resolution number 1 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 1 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 major shareholders of the company – page 247
- the share capital of the company – page 231

STATEMENT OF ACCURACY OF INFORMATION

The directors, whose names are set out on pages 48 and 49 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.

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 2016 and the date of this notice.

8. SPECIAL RESOLUTION NUMBER 2

AMENDMENT TO THE COMPANY'S MEMORANDUM OF INCORPORATION

Shareholders are requested to consider and vote on the following special resolution:

"Resolved that in accordance with section 16(1)(c) of the Act the company's MOI be amended as follows:

- By deleting clause 10.2 and replacing it with "In respect of fractional entitlements that arise, all allocations of securities will be treated in line with the provisions of the JSE Listings Requirements, as amended from time to time."
- By inclusion of the phrase "save for the further provisions below" between the words "contained," and "if" in line 1 of the paragraph preceding clause 24.2.3;
- By inclusion of the following phrase at the end of the paragraph following clause 24.2.4 "provided further that if any Director who is required to so retire has been appointed as the chief executive officer or executive finance director (as these offices are contemplated in the Listings Requirements, if applicable), or managing director, joint managing director and/or to any other executive office for a fixed period, as the case may be, and his contract of employment provides that he is not subject to retirement during that fixed period, such executive director shall not be subject to retirement by rotation until such fixed period shall have expired through effluxion of time, unless he shall have ceased to be a Director in terms of any of the provisions of section 70(1)(b) of the Companies Act before that date.";
- By inclusion of the phrase "subject always to the provisions in clause 24.2" in clause 24.4 (first sentence: after the words "clause 24.9") and in clause 28.2 (after the words "if applicable") at the end of the first sentence);
- By deletion of the phrase "(not exceeding 3 (three) years)" in clause 28.2 (5th last line after the words "for such period").

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 2

The **reason** for the proposed changes to the MOI is as follows:

- Clause 10.2: To address new requirements prescribed by the JSE for fractional entitlements in relation to allocation of securities.
- The **effect** of the proposed changes to clauses 10.2, if adopted, would be to comply with the amendments to the Listings Requirements.
- To amplify the provisions of clause 24.2 of the MOI which do not require the rotation of the chief executive officer and executive finance director (as these appointments are contemplated in the Listings Requirements), as well as other executive director appointments mentioned in clause 24.2. Shareholders' attention is drawn to the perceived misinterpretation of the paragraph preceding clause 24.2.3 and clause 28.2 of the company's MOI which creates an unintended anomaly compared to the intent and provisions of clause 24.2. Clause 24.2, 24.4 and 28.2 of the Company's MOI if corrected as proposed, would be in line with Schedule 10, paragraph 10.16(g) of the Listings Requirements which requires "that at least one-third of **non-executive directors** must retire at the company's AGM", as well the Institute of Directors of Southern Africa ("IoDSA") Practice Note on "Retirement by rotation of executive directors" which states in relation to King III that the "King Committee is of the view that retirement by rotation of non-executive directors should **not be extended to include executive directors.**"

The **effect** of the proposed changes to clauses 24.2, 24.4 and 28.2, if adopted, would be to remove the ambiguity and perceived misinterpretation of these clauses, by aligning such clauses with the provisions of clause 24.2, the minimum requirements of the Listings Requirements, the IoDSA Practice Note, King Committee's view and prevailing market and business practice in South Africa and the insurance industry.

The amended MOI will be available for inspection from 1 October to 11 November 2016 at the company's registered offices. Kindly notify the company secretary as per the details hereunder, should you wish to inspect the MOI.

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 (i.e. have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (i.e. 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 13:30 on Friday, 18 November 2016, 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 before the commencement of the AGM at 13:30 on Tuesday, 22 November 2016.

If you hold dematerialised shares (i.e. 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), M Vilakazi (group finance director), P Cooper (alternate WM Krzychylkiewicz), F Jakoet, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, KC Shubane, FJC Truter, BJ van der Ross, JC van Reenen, LL von Zeuner.

By order of the board



Maliga Chetty
Group company secretary

30 September 2016
Registered office
268 West Avenue
Centurion
0157

REPORT BY THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

Report by the Social, Ethics and Transformation Committee (SETC) to be presented at the 15th (fifteenth) annual general meeting of the shareholders of the company to be held on 22 November 2016 at MMI Head Office, 268 West Avenue, Centurion in the Executive Boardroom, 1st Floor.

INTRODUCTION

The 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 (B-BBEE), Financial Sector Code (FSC) 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

The achievement of the approved revised group transformation strategy and monitoring the implications of the rapidly evolving B-BBEE landscape remains a key focus area of the SETC. The committee monitors the progress of the group in ensuring that the racial imbalances of the past are corrected and that leadership and talent are encouraged through positive and affirmative policies. We further recommend remedial action where necessary in support of these objectives.

In doing this, the SETC monitors the progress of the group in aligning its employment equity goals with National Economically Active Population (NEAP) targets, enhancing the development of talent within the group through proactive learning and development initiatives and increasing its procurement from black and black women-owned businesses with particular focus on small enterprises. Amongst other key activities of the committee in the current year was monitoring the implementation of the group’s Enterprise and Supplier Development (ESD) strategy, please refer Masikhulise ESD Trust below.

B-BBEE VERIFICATION AT 31 DECEMBER 2015

The group finalised its annual B-BBEE verification process, measuring the calendar year ended 31 December 2015 under the requirements of the FSC. The SETC is pleased to report that MMI has retained its Level 2 Contributor status with an overall score of 90.8 points (2014: 91.0), which we regard as a great achievement given the impact of the implementation of the Department of Trade and Industry (dti) revised Codes of Good Practice (CoGP) that became effective 1 May 2015 by some of our suppliers.

The following are notable changes in our element scores compared to the prior year:

- Skills Development (SD): This was a key risk element for the group as a result of the low base from previous years. We are proud to report that the initiatives undertaken have resulted in significant improvements in respect of percentage performance relative to target, even though the score increase is marginal. The 2015 target was set at 3.5% of the Leviable Amount on proactive learning and development initiatives for African, Coloured and Indian employees (as per the revised group transformation strategy), the achieved SD performance exceeded the target, it was recorded at 3.98%, setting a good base for the 2016 target of 4.5%.
- Employment Equity (EE): The group underwent a significant restructuring during the year under review resulting in a reduction in the total number of South African employees. This has had a marginal negative impact on our EE points. However, it is important to note that this element is receiving specific focus from management through the MMI Way that amongst other objectives aims to articulate an appropriate Employee Value Proposition that will attract, retain and engage employees. In addition, our talent attraction, acquisition, selection and placement philosophy, principles and practice are being defined in line with the new MMI way. Management is confident that these initiatives as well as regular progress tracking, monitoring and reporting will lead to the achievement of our EE goals.
- Preferential Procurement (PP): The proactive implementation of our revised Transformation strategy has mitigated the impact of the implementation of the dti revised CoGP that are widely expected to decrease the Contributor Level status of measured entities by an average of 2 (two) levels. The revised group transformation strategy focuses on redirecting non-compliant spend to Black Owned, Black Women Owned, EME1 and QSE2 suppliers and setting aside certain earmarked commodities for the designated suppliers. We are pleased to report that the first phase of implementing the revised strategy has resulted in a net increase of 2% in procurement spend from EME1 and QSE2 suppliers and an increase in spend with suppliers that are more than 30% Black Women Owned of 2.6%

CHANGES TO THE B-BBEE LEGISLATIVE LANDSCAPE

Following the dti revised CoGP being effective on 1 May 2015, the FSC Charter Council published the draft revised FSC on 17 March 2016 with a 60-day public commentary process as part of its alignment process. It is envisaged that the revised FSC will be finalised and gazetted by the end of June 2016.

Management have begun a process to align our revised group transformation strategy with the draft revised FSC, as a minimum, with the aim of anticipating any potential negative impacts on our scorecard and proposing necessary mitigating measures to minimise the adverse effects on our overall score. During this transition period of alignment of the FSC with the dti revised CoGP, management has planned for most eventualities and continues to monitor developments closely.

MASIKHULISE (“TOGETHER WE GROW”) ESD TRUST

MMI views ESD as a strategic imperative in achieving its objective of enhancing financial wellness for all. The concept of ESD forms part of a global movement towards greater inclusivity in business supply chains. In response to this priority element, we are glad to report a successful set up of the Masikhulise ESD Trust, which is a ring-fenced Broad Based Ownership Scheme (BBOS) that will house all the group’s ESD initiatives. The Trust will mainly invest in the sustainability of small to medium enterprises as we believe they play a pivotal role in job creation and economic growth, contributing to the National Development Plan agenda that comprises inclusive growth, as an objective.

Our ESD vision is: “We see the creation and growth of sustainable black EMEs and QSEs in support of financial wellness.” This strategy is aimed at sustainable ESD interventions that:

- Support the group’s overall B-BBEE strategy
- Support the group’s overall broader shared value drive
- Accord with the dti’s revised CoGP requirements.

This strategy was approved by the group Exco in January 2016 and subsequently by the SETC at its February 2016 meeting.

Some of MMI’s ESD interventions to date include:

- Provided support to The Business Place Phillipi. This business centre provides entrepreneurial support for start-up businesses in the Cape Flats and Khayelitsha area.
- MMI launched a Supplier Development programme which aims to provide Business Development Support (BDS) to suppliers within the MMI Supply chain.
- MMI has partnered with ASISA (Association of Savings and Investment in South Africa), our industry body, through a capital investment into their ESD fund and to roll out our Black Broker BDS programmes.

We are also proud to report that during the year under review the group contributed to the creation of the third (3rd) largest black asset manager, Aluwani Capital Partners (ACP). This is part of our outcomes-based investment strategy, where we will partner with asset managers like ACP for the more active, equity-based asset strategies. Management believes that this initiative demonstrates our commitment to enhanced shareholder value while meeting our transformation objectives at the same time.

SETC together with management are assessing opportunities to support Black Industrialists. We are committed to creating black industrialist aligned to the draft Revised FSC.

We believe that our investment in these Black Owned and Black Women owned enterprises will play an integral role in socio-economic transformation in South Africa by reducing poverty, creating sustainable employment and growing our economy.

EMPLOYMENT EQUITY

As part of the Department of Labour Director (DoL) Director General (DG) review, the SETC approved the newly formulated group’s 5 (five) year EE targets that are aligned to Nationally Active Population ratios. Subsequent to the approval, management submitted the plan to the DoL for final approval in line with the requirements of Act 47 of the amended Employment Equity Act, 2013.

The SETC is also pleased to report that at a meeting held on 17 May 2016 with DoL, MMI was formally advised of the approval of its EE plan that is valid until 2020. The DoL commended MMI for its efforts and commitment towards transformation. However, it was emphasised that the implementation of our EE plan is crucial to us achieving our employment equity objectives and that it is a collective responsibility of the entire MMI community.

REPORT BY THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE CONTINUED

CONCLUSION

The SETC confirms its support of the approved revised group transformation strategy aligned to the Revised FSC, and the various initiatives in support of the implementation of the strategy. We are pleased with the B-BBEE and Transformation progress to date, in particular the headways on the implementation of our ESD strategy and we look forward to report on the positive impacts from this initiative. Progress towards the attainment of the stated strategic goals and objectives is monitored on a periodic basis, and we remain confident in achieving our various strategic targets.

ETHICAL CONDUCT

The group forensic services department reports to the SETC on a quarterly basis on any formal actions taken in respect of identified or alleged transgressions related to internal corruption, commercial crime and unethical behaviour by employees. In addition, this team reports on internal anti-corruption, anti-commercial crime interventions and related activities. The SETC has satisfied itself that the management of corruption, commercial crime and unethical employee behaviour is appropriately and effectively dealt with within the group.

TREATING CUSTOMERS FAIRLY

The SETC is tasked with reviewing the quarterly monitoring reports on activities relating to customer relations and the fair treatment of clients. The SETC assumes an oversight role on these activities, which are currently being monitored by the MMI Fair Practices Committee (FPC). This FPC is mandated by the MMI board to ensure that the fair treatment of clients is a core corporate value, embedded at all levels within MMI group.

ENVIRONMENTAL SUSTAINABILITY

The group actively subscribes to the requirements set out under the King Report on Governance, the United Nations Principles for Responsible Investing and the Code for Responsible Investing in South Africa. In addition, the group strives to comply with relevant legislation relating to environment, social and governance ("ESG") enactments. To this end, the group has a sustainability policy and a responsible investment policy in place. The SETC considers quarterly reports on MMI's sustainability activities.

MMI has been listed on the Johannesburg Stock Exchange (JSE) Social Responsibility Index since 2010, and was listed on the newly created FTSE/JSE Responsible Investment Index in December 2015. The group calculates its carbon footprint on an annual basis, and also participates in the CDP (formerly the Carbon Disclosure Project) process. An environmental policy aimed at addressing the above requirements and recommendations has been approved and is available on the MMI website

CORPORATE SOCIAL INVESTMENT (CSI)

The group has continued to fund the MMI Foundation (Foundation) which provides strategic direction and oversight for a number of CSI initiatives. The Foundation's focus areas are education, health, disability and sports development. The Foundation continues to support and fund projects within these identified focus areas.

CONCLUSION

No significant risks have been identified or have arisen during the past year in respect of the functions of the SETC recorded in the regulations and in the terms of reference of the SETC.



Mr Syd Muller

Chairman: MMI Social, Ethics and Transformation Committee

6 September 2016



MMI HOLDINGS

FORM OF PROXY

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration.

Fifteenth annual general meeting ("AGM") to be held at 13:30 on Tuesday, 22 November 2016, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

I, _____ (full name)

of _____

Telephone number (_) _____ Mobile 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/her, _____ (full name of proxy holder)

of _____

or failing him/her, 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, 22 November 2016 at 13:30, as well as at any adjournment of the said meeting.

Signed at _____ on this _____ day of _____ 2016

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/she thinks fit).

ORDINARY RESOLUTIONS

Nature of resolution		For	Against	Abstain
1.1	Election of Mr P Cooper			
1.2	Election of Mr WM Krzychylkiewicz			
2.1	Re-election of Mr JC van Reenen			
2.2	Re-election of Mr PJ Moleketi			
2.3	Re-election of Mr LL von Zeuner			
3	Re-appointment of PricewaterhouseCoopers Inc. as external auditors, with Mr Andrew Graham Taylor as the designated audit partner			
Appointment of Audit Committee				
4.1	Re-appointment of Mr FJC Truter			
4.2	Re-appointment of Mr SA Muller			
4.3	Re-appointment of Mrs F Jakoet			
4.4	Re-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	General approval of share buy-back			
2	Amendment to the company's Memorandum of Incorporation			

Notes

1. The MMI board of directors (the "board") 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, 23 September 2016, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 11 November 2016. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 11 November 2016 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 Tuesday, 8 November 2016.
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 no later than 13:30 on Friday, 18 November 2016, 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 before commencement of the AGM at 13:30 on Tuesday, 22 November 2016.
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/her 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 AGM be proposed, the proxy shall be entitled to vote as he/she 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 of MMI, 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 only be made available in the Serengeti VC Room, 1st Floor, Parc du Cap Building 7, 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 written notice delivered to the company, at the address detailed hereunder, by no later than 16:00 on Tuesday, 15 November 2016. The above-mentioned facility will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 15 November 2016 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.
12. Any alterations made to this form of proxy must be initialled.

The group company secretary

MMI Holdings Ltd

268 West Avenue

Centurion

0157

MMI HOLDINGS LTD

Group company secretary and registered office

Maliga Chetty
268 West Avenue
Centurion
Telephone: +27 12 684 4255
Maliga.Chetty@mmiholdings.co.za

Investor relations

Risto Ketola
Telephone: +27 12 671 8566
risto.ketola@mmiholdings.co.za

Natalie Amos
Telephone: +27 21 940 6112
Fax: +27 21 940 6690
namos@mmiholdings.co.za

Company registration

2000/031756/06

American Depository Receipt

CUSIP: 592144109
Depository: Bank of New York

Internet address

<http://www.mmiholdings.com>
E-mail: info@mmiholdings.co.za

Sponsor – South Africa

Merrill Lynch South Africa (Pty) Ltd

Transfer secretaries – South Africa

Link Market Services SA (Pty) Ltd
13th Floor, Rennie House
19 Ameshoff Street
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

