MMI HOLDINGS

2017
integrated report

momentum METROPOLITAN GUARDRISK multiply

Momentum, Metropolitan, Guardrisk and Multiply form part of MMI Holdings Group, an authorised financial services provider.

Contents

Who we **are**

MMI Holdings Limited (MMI) is a South African financial services group listed on the JSE in South Africa and the Namibian Stock Exchange. Through our client-centric strategy, we focus on enhancing the lifetime Financial Wellness of our individual clients, small and medium businesses, large companies, organisations and public enterprises in South Africa, the rest of Africa and selected international countries.

This is achieved by our client-facing brands, namely Metropolitan, Momentum, Guardrisk and Multiply, using MMI's financial services and other capabilities.

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.

About Financial Wellness

MMI believes that Financial Wellness is a continuous process of planning and managing money so that you can afford your expenses and reach your goals over your lifetime.

Our approach to **integrated reporting**

Scope of the report

Our 2017 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 2016 to 30 June 2017. The report also gives a detailed overview of the group's client-centric operating model and strategy, and all financial and non-financial matters that are considered to be material for stakeholders to make an informed assessment of the performance and prospects of the group.

Material matters

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

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 geographic diversification into India.
- Streamlining our portfolio in Africa.
- Demonstrating our meaningful value proposition to clients via our Outcomes-based Investment philosophy.
- Implementing a turnaround strategy for the group's health administration businesses.
- Drive growth and profitability in Momentum Short-term Insurance.
- Implementing actions to improve underwriting experience.
- Operationalise our African Bank joint venture.

Our focus on these material matters is underpinned by ongoing efforts to reinforce 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 our ability to create value for our business and our stakeholders. Although not a major consumer of natural capital, the group acknowledges the role of business in protecting natural capital and acts accordingly.

This report is not structured according to capitals, but the capitals are embedded and discussed within the relevant sections of the integrated report.

Reporting framework

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

INTEGRATED REPORT

- International Integrated Reporting Council (IIRC) Framework
- JSE Listings Requirements.
- King IV Report on Corporate Governance™ (hereafter referred to as King IV).

CORPORATE GOVERNANCE REPORT AND REMUNERATION REPORT

- King IV.
- JSE Listings Requirements.
- Companies Act, 71 of 2008 (Companies Act).

FINANCIAL STATEMENTS

- International Financial Reporting Standards (IFRS).
- Companies Act.
- JSE Listings Requirements.
- King IV.
- Long-term Insurance Act, 52 of 1998 (Long-term Insurance Act).
- Short-term Insurance Act, 53 of 1998 (Short-term Insurance Act).
- Guidelines issued by the Actuarial Society of South Africa (ASSA).

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 2017. 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.

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, 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. Where information is only available on the website, it will be indicated in this report accordingly. You can also find information on our share price performance and other economic data in the investor relations section on the website.

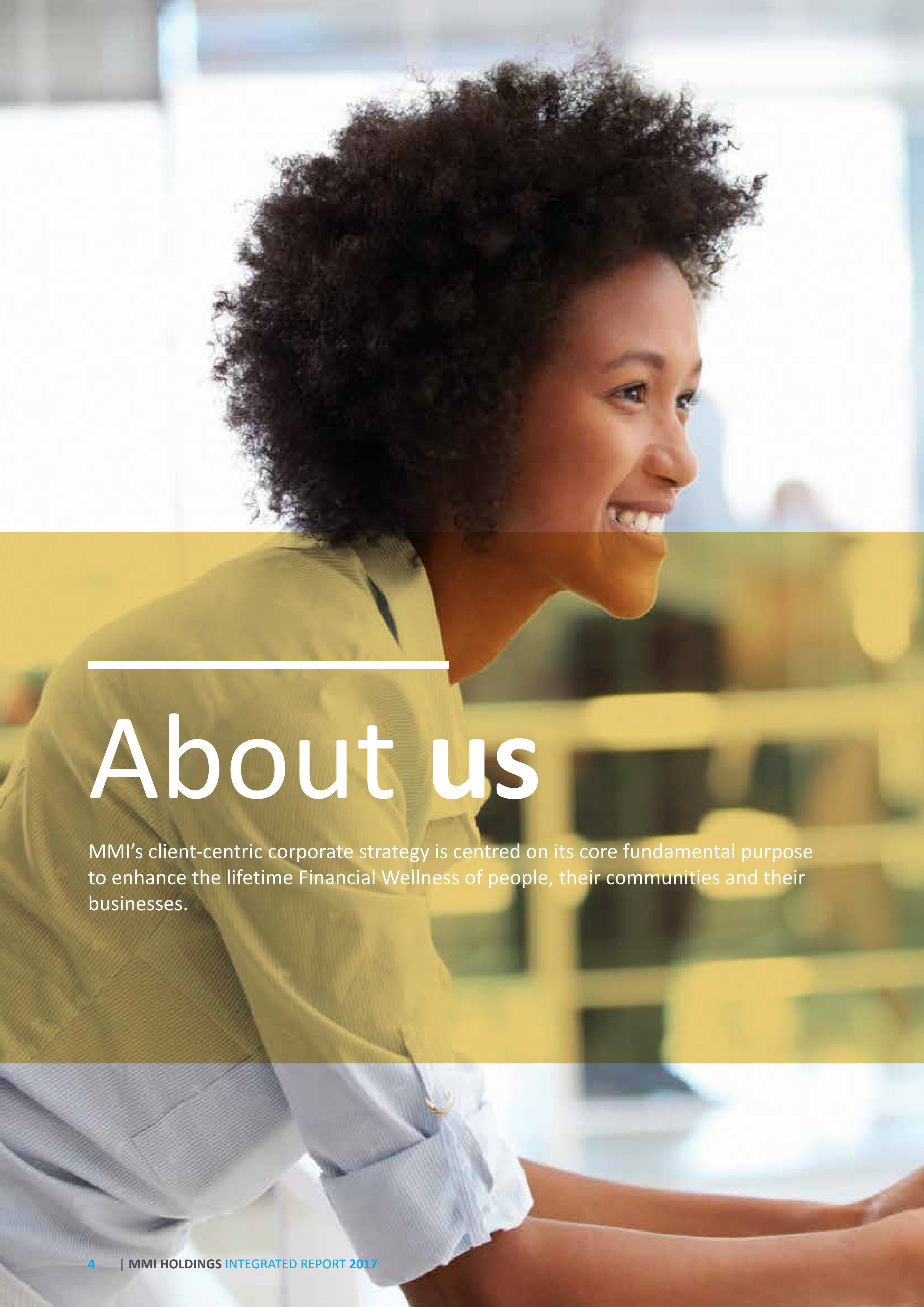
Sustainability information is available in the sustainability section of the MMI website.

Our registered office is situated at:

268 West Avenue,
Centurion,
South Africa,
0157

Telephone: +27 12 671 8911

www.mmiholdings.com



About **us**

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.

At a **glance**

New business PVP
6%
to **R41.6 billion**

Diluted core headline earnings
stable
at **R3.2 billion**

Return on **embedded** value
4.7%

Value of new business
R547 million
23%

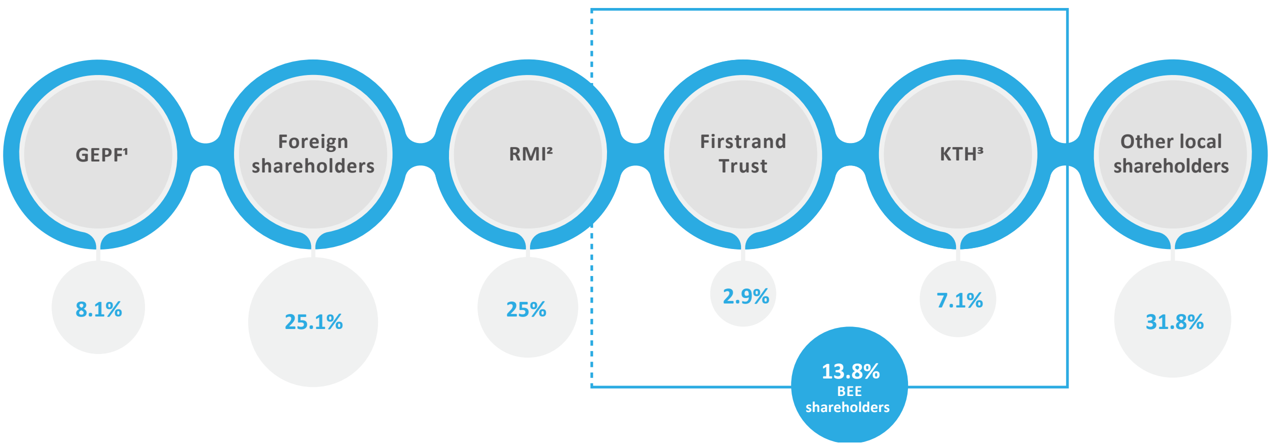
Total dividend **stable** at
157 cents
per share

Expense **optimisation** project
R323 million
of annual savings achieved to date - expense savings on track

Capital management

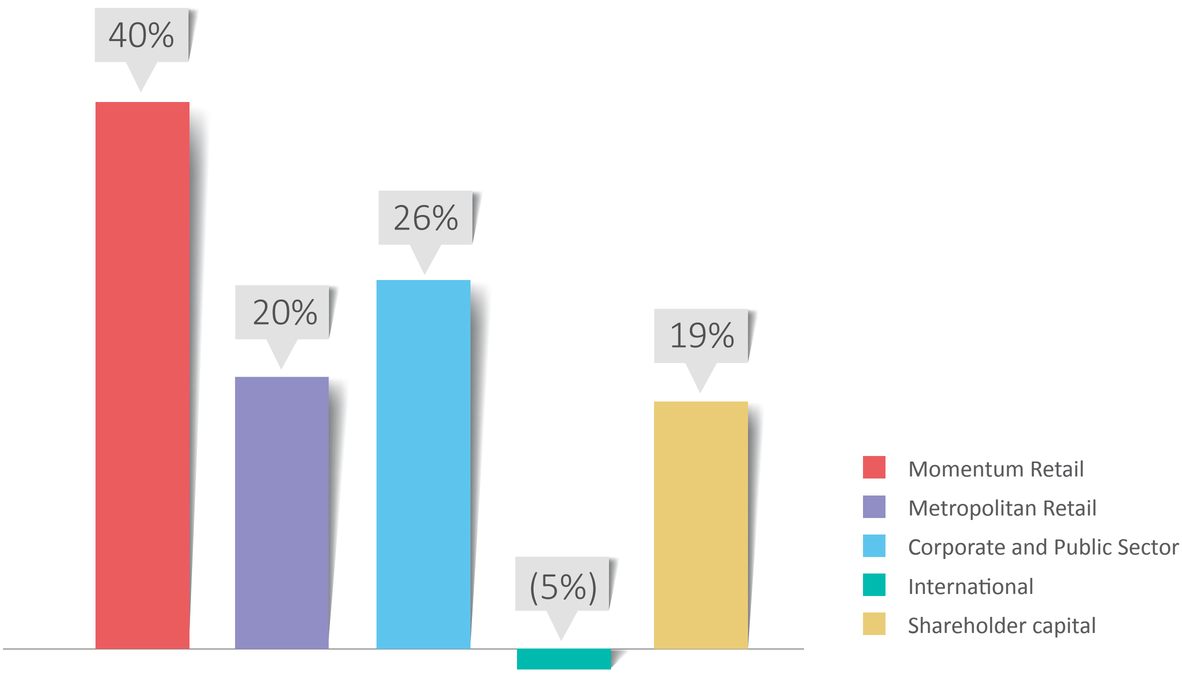
Economic capital	**June 2017 Rbn**	**June 2016 Rbn**
Net asset value as per embedded value statement	16.3	16.9
Qualifying debt capital	3.6	3.6
Less: net asset value of strategic subsidiaries	(3.6)	(3.5)
Less: required capital	(10.1)	(9.7)
Capital buffer before deployment	6.2	7.3
Deployed	(2.5)	(3.7)
Deployed for dividend payable	(1.5)	(1.5)
Deployed for strategic initiatives	(1.0)	(2.2)
Capital buffer after deployment	3.7	3.6

Shareholder structure

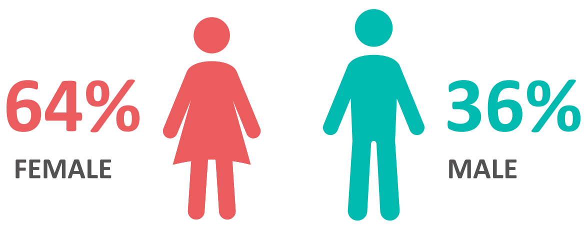


[1] *Government Employees Pension Fund*   [2] *Rand Merchant Investment Holdings*   [3] *Kagiso Tiso Holdings*

Diluted core headline earnings contribution per division at 30 June 2017



Employees



South Africa
14 509

International
2 721

Transformation

Level **2**
B-BBEE
status

Corporate social investment spend

Over
R8.4 million **on education**

Five-year **financial review**

		Restated		Pre client-centric restructure	
	June 2017 Rm	June 2016[1] Rm	June 2015[2] Rm	June 2014[3] Rm	June 2013[3] Rm
Net insurance premiums	**62 935**	63 112	65 070	56 242	56 739
Momentum Retail	**24 740**	25 634	24 676	29 134	35 693
Metropolitan Retail	**6 898**	6 816	6 910	6 820	6 246
Corporate and Public Sector	**27 167**	26 608	29 921	17 390	12 265
International	**4 130**	4 054	3 563	2 898	2 535
New business premiums – present value of premiums (PVP)	**41 595**	44 090	50 396	41 739	35 357
Momentum Retail	**22 774**	23 468	25 458	20 434	17 421
Metropolitan Retail	**5 164**	4 936	5 091	4 948	4 674
Corporate and Public Sector	**11 121**	13 232	17 683	14 491	11 627
International	**2 536**	2 454	2 164	1 866	1 635
Value of new business	**547**	712	954	779	681
Momentum Retail	**228**	251	276	240	203
Metropolitan Retail	**178**	191	185	236	209
Corporate and Public Sector	**68**	199	427	254	213
International	**73**	71	66	49	56
Diluted core headline earnings	**3 208**	3 206	3 836	3 621	3 241
Momentum Retail	**1 271**	1 493	1 756	1 569	1 333
Metropolitan Retail	**660**	700	604	587	509
Corporate and Public Sector	**835**	680	861	687	481
International	**(166)**	(156)	152	122	108
Shareholder Capital	**608**	489	463	656	810
Earnings attributable to owners of the parent (Rm)	**1 536**	2 142	2 857	3 197	2 587
Earnings per share attributable to owners of the parent (cents)	**98.4**	137.6	183.5	205.5	166.0
Diluted headline earnings per share attributable to owners of the parent (cents)	**117.7**	132.2	181.4	204.0	160.2
Diluted core headline earnings per share attributable to owners of the parent (cents)	**200.0**	199.9	239.2	225.7	202.0
Dividend per share (cents)	**157**	157	155	142	127
Diluted embedded value (Rm)	**42 523**	42 989	40 330	39 675	35 148
Return on embedded value (%) (annualised) – internal rate of return	**4.7%**	12.8%	9.6%	19.0%	17.4%
Price/diluted core headline earnings ratio	**10.1**	11.3	12.6	11.6	11.0
Dividend yield % (dividend on listed shares)	**7.8%**	6.9%	5.1%	5.4%	5.7%
Share price – last sale of period (cents per share)	**2 024**	2 264	3 015	2 625	2 217

[1] *June 2016 has been restated due to changes relating to (1) the transfer of smaller operations previously shown as part of the shareholder capital segment into the client-facing segments, (2) transfer of UK operations from Momentum Retail and Shareholder Capital to the International segment and (3) refinement of the manner in which costs related to our Rewards Programme are allocated. June 2017 and June 2016 are therefore comparable.*

[2] *June 2015 has been restated and includes the changes made as part of the client-centric model introduced in July 2015.*

[3] *June 2013 to June 2014 have not been restated and are included as they were prior to the client-centric restructure.*

Areas of strength

LEADING CLIENT-CENTRIC STRATEGY

EXCELLENT EMPOWERMENT CREDENTIALS

EXTENSIVE DISTRIBUTION CAPABILITY

DIVERSIFIED CASH-GENERATING BUSINESS

EXPERIENCED MANAGEMENT

STRONG BRANDS

Introduction

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. MMI's client-centric corporate strategy centres on this core fundamental purpose.

Our strategy aims to generate superior returns through leading client experiences that build strong, close and trusted relationships. This is achieved through the design, integration and management of holistic solutions to client challenges around becoming and staying financially well throughout their lives.

While we strive to be competitive in terms of price and quality of products, the focus of our strategy is on building deep relationships with clients. We achieve this by competing effectively in the high-value end of the value chain, namely the integration of highly effective Financial Wellness solutions.

Client aspirations

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

Achieving 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.

Strategy map

MMI's strategy map guides what we do to implement our client-centric strategy. Everything we do supports living our purpose. Each component of our strategy map has a corresponding balanced scorecard measurement to track our progress in implementation.

MMI's group strategy (continued)

Strategic focus areas

MMI's three strategic focus areas are Client centricity, Growth and Excellence.

CLIENT CENTRICITY

Client centricity represents MMI's core identity. Our primary objective is to create superior client experiences, while increasing our clients' Financial Wellness. Our Multiply wellness and rewards programme plays an important role in providing outstanding client journeys and encouraging client behaviours that increase their Financial Wellness. This also increases the lifetime value of our clients, who consequently use more of MMI's products and hold them for longer.

GROWTH

Growth remains a critical strategic focus area in the current challenging operating environment, underpinned by three strategic objectives:

1 INCREASE THE VALUE OF EXISTING CLIENTS –

with cross-selling and our Multiply wellness and rewards programme as key initiatives to advance this objective.

2 INCREASE THE CLIENT BASE –

through strategic initiatives including segment diversification into the middle income segment, channel growth (through an increase in the productivity and size of our face-to-face sales forces), growing alternative distribution channels and corporate transactions.

3 GROWTH THROUGH GEOGRAPHICAL DIVERSIFICATION –

by creating value outside South Africa, in selected countries in Africa and in India.

EXCELLENCE

Our focus is on delivering superior and excellent experiences, as well as on efficiency in delivery.

ENABLERS

Realising 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 culture that supports MMI's strategy.
- Innovation as the way in which we do business.

Innovation

As a strategic enabler, innovation is core to our vision and is one of our values. We follow a three-pronged approach to drive innovation across MMI, comprising our innovative culture, an internal innovation programme and MMI's externally-focused disruptive innovation initiative.

Our culture provides the foundation for all our innovation efforts. In building the MMI Way across the entire MMI group, we are increasing our focus on innovation and the behaviours that advance innovation, which are endorsed as core to our culture. Our Human Capital team works closely with senior leaders to create an environment where everyone has the freedom to innovate.

Our internal innovation programme uses agile methodologies to advance innovative ideas that are closely aligned to MMI's strategic priorities. Multi-functional teams take part in incremental development sessions, applying design thinking and developing prototypes in respect of a range of ideas put forward by MMI's business units. Based on the results of this market validation process the most attractive innovations are selected and resources allocated to progress implementation.

exponential

MMI's disruptive innovation initiative is called Exponential Ventures. This business unit focuses on transformational innovation opportunities in the areas of fintech and insurtech that align with MMI's Financial Wellness purpose. We believe that technology advances that have disrupted many industries will also have a significant impact on financial services. Exponential Ventures is working to head off this threat by turning technology into an opportunity for growth over the long term.

Through our venture capital partners in the UK, Anthemis, we have invested in a number of startups that are leveraging the transformative power of digital financial services. We have established a venture developer partnership with Anthemis to build businesses at the forefront of Financial Wellness over the next few years. Similar investments have been made in South Africa, working with our local venture capital partner, 4Di Capital. During the past year, MMI also worked directly with a number of South African startups that are already adding value to our existing businesses. We are in the process of commercialising these opportunities.

Our investment partnership with the global accelerator, Startupbootcamp InsurTech, exposed MMI to more than 20 insurtech startups over the past two years. MMI is proud to be stimulating growth in the local and global insurtech space, especially considering that the three South African start-ups have been selected for Startupbootcamp's 2017 global intake.

MMI's **operating model**

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. These value propositions are delivered through products provided by our Centres of Excellence, and enhanced by client engagement and experience tools designed by the Client Engagement Solutions business. Group-wide functions support the operating units. The model lends itself to significant optimisation opportunities, and a number of group-wide optimisation projects are supporting our expense savings target of R750 million by 2019.

MMI operating model

SEGMENTS

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

Client Engagement Solutions

CENTRES OF EXCELLENCE

- Health
- Savings and Investments
- Life Insurance
- Short-term Insurance
- Lending Solutions

GROUP-WIDE FUNCTIONS

- Group Finance
- Chief Risk Officer
- Human Capital and Transformation
- Group Operations
- Brand and Corporate Affairs

MMI's group executive appointments

Risto Ketola has been appointed as group chief financial officer and takes overall responsibility for Group Finance and Balance Sheet Management. Risto will be the strategic driver in ensuring the success of our MMI Finance2Excellence project, aimed at improving insights from the financial reporting process and transforming financial reporting to be more future orientated to better support and inform strategic decision-making.

Ashlene van der Colff has been appointed as chief operating officer for the group and will be responsible for ensuring that MMI operations and work practices are robust, effective and efficient in delivering to the business across the value chain of operations. To this end her portfolio will include Group Information Technology, Operations and Facilities Management. A substantial component of this role will be to ensure strategic alignment across the group, with a clear focus on operational excellence and efficiency that will enable our client-centric strategy. Ashlene will drive the prioritisation and execution enablement of key initiatives across the group.

Group executive committee reporting structure

Nicolaas Kruger (49)
Group chief executive officer
BCom, FFA, FASSA, AMP (Oxford)
Financial services industry experience: 26 years

Mary Vilakazi (39)
Deputy chief executive officer and group finance director
BCom (Hons), HDip Auditing, CA(SA)
Financial services industry experience: 17 years

OPERATING BUSINESSES

Thinus Alsworth-Elvey (43)
Chief executive Corporate and Public Sector, UK and Momentum Investments
BCom, LLB, LLM, H Dip Tax, CFP
Financial services industry experience: 21 years

Zureida Ebrahim (40)
Chief executive Client Engagement Solutions
BCom, MAP
Financial services industry experience: 18 years

Herman Schoeman (54)
Chief executive Short-term Insurance and Guardrisk Group
BCom, HED, MBA
Financial services industry experience: 27 years

Innocent Dutiro (53)
Chief executive International
BSc Honours , MSc, MBA
Financial services industry experience: 18 years

Khanyi Nzukuma (46)
Chief executive Momentum Retail and acting CE Metropolitan Retail
BA, MBA, PhD
Financial services industry experience: 19 years

GROUP-WIDE FUNCTIONS

Jan Lubbe (46)
Chief risk officer
CA(SA), MBA, MCom
Financial services industry experience: 23 years

Linda Mthenjane (45)
Group executive Human Capital and Transformation
BA (Honours in Psychology), Masters of Arts (Clinical Psychology)
Financial services industry experience: 19 years

Ashlene van der Colff (43)
Group head of operations
BSocSc, BCom Honours, PGDip Accounting, HDip Tax Law, CA(SA)
Financial services industry experience: 15 years

Risto Ketola (42)
Group chief financial officer
BSc, FIA, FASSA, CFA
Financial services industry experience: 19 years

Group executive ages as at 30 June 2017.

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.

			International	
Momentum Retail	**Metropolitan Retail**	**Corporate and Public Sector**	**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.	Holistic solutions for the needs of corporates and public sector entities.	Solutions for clients in African countries outside South Africa, and in India.	Investment solutions for clients in the UK.

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 and risk protection solutions.	Provides health administration, risk management and healthcare funding solutions.	Delivers 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 dividends. • Growing the embedded value of the company.	• Total dividend per share of 157 cents. • Return on embedded value of 4.7%.	• Group finance director's report – page 52. • At a glance – page 6.
Clients	• Providing Financial Wellness.	• Paid insurance benefits and claims of R24 441 million.	• Financial statements – page 104.
Employees	• Providing career opportunities and leadership development. • Enhancing employee wellness.	• 17 230 employees. • Skills development spend of R150 million. • Paid employee benefits of R5 249 million.	• At a glance – page 6. • Financial statements – page 104.

		OUTCOME	REFERENCE
Communities	• Delivering programmes that create lasting benefits for the communities in which we operate by addressing barriers to Financial Wellness.	• Corporate social investment spend of R29 million.	• Social and environmental indicators – page 41.
Regulators and government	• Complying with all regulatory requirements. • Providing input into new industry legislation.	• B-BBEE Level 2 contributor. • Paid income tax of R2 937 million.	• Transformation review – page 38. • Financial statements – page 104.
Suppliers	• Fair and ethical partnerships, thereby contributing to employment and growth in the economy. • Offering enterprise and supplier development funding.	• B-BBEE trust established to increase enterprise and supplier development contribution. • Long term mutually beneficial supplier relationships.	• Transformation review – page 38.
Intermediaries and brokers	• Offering a competitive suite of products.	• Paid sales remuneration of R5 283 million. • Training opportunities delivered.	• Financial statements – page 104. • Transformation review – page 38.

GROUP PROFIT DRIVERS

The main determinants underlying MMI's 2017 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 starting on page 18.

EARNING AND/OR VALUE DRIVERS

New business volumes	**Recurring premiums** from new policies written on the life insurance licence (excluding premiums acquired by Guardrisk cells) exhibited a modest increase of 2% over the prior year. The Metropolitan Retail segment experienced satisfactory growth of 12% year-on-year, with more muted growth of 3% from the Momentum Retail segment and a decline of 16% from the Corporate and Public Sector segment. Southern African countries outside South Africa experienced 10% growth in new recurring premiums. **Single premiums** from on-balance sheet products declined 10% year-on-year, while off-balance sheet single premiums were 24% lower. Most local market segments experienced a decline in on-balance sheet single premium receipts, with the Corporate and Public Sector being the worst affected, experiencing a decline of 24% year-on-year.

How we **create value** (continued)

EARNING AND/OR VALUE DRIVERS	
New business volumes (continued)	New business fee income from **Guardrisk** cells was lower than the prior year. However, **Momentum Short-term Insurance** experienced strong new business premium growth of 35%. The growth in new short-term premium income is pleasing, since it was accompanied by a material improvement in claims ratio (ie better quality business). Premium inflows in **India** (health insurance business, launched during November 2016) were well ahead of expectations, although currently more weighted towards group schemes, as opposed to retail business where the growth focus will be. Membership of closed **health** administration schemes was stable year-on-year, while membership of the Momentum Health open scheme increased by 11%. Products aimed at the low income primary healthcare space also experienced strong premium growth over the previous year.
Value of new business (VNB)	The value of new covered business (excluding Guardrisk and off-balance sheet flows) declined by 23% since the previous financial year. This is mainly a result of lower **sales**, but **margin** contraction also played a role, especially within the Corporate and Public Sector segment, where the aggregate new business margin more than halved from the previous year.
Persistency (client retention)	**Termination** experience within Momentum Retail was satisfactory. Metropolitan Retail experienced some increase in the rate of policies not taken up (early duration lapses), partly due to an increase in the proportion of inexperienced new agents. The Corporate and Public Sector segment experienced higher than expected terminations on risk business. Clients that are members of the **Multiply** Financial Wellness programme have been shown to exhibit better persistency (lower terminations) than those who are not members.
Claims	Claims experience (mortality and morbidity) on **retail business** was better than expectations and profitable relative to the actuarial valuation basis. Claims experience from clients that are members of the **Multiply** Financial Wellness programme have been demonstrably lower than those from non-members. **Disability claims** experience within the Corporate and Public Sector segment remained under pressure in light of unfavourable economic conditions. Underwriting experience in **Momentum Short-term Insurance** continued to improve, with the claims ratio improving from 82% in F2016 to 73% during F2017. While still higher than the South African peer average, this exhibits a positive trend especially in the light of strong new business growth over the year.

EARNING AND/OR VALUE DRIVERS	
Claims (continued)	**Outside South Africa**, claims experience on life insurance business was satisfactory. The health business also improved, following the implementation of management actions. However, underwriting results on short-term insurance conducted outside South Africa remained poor.
Expense management	Group-wide **management and administration expenses** have been well managed coming in slightly below corresponding expenditure during F2016. This is despite substantial investments in new initiatives (India) and streamlining (Africa) and inclusive of various non-recurring and non-cash items (eg impairments). In real terms, taking into account inflation over the period, there was a considerable year-on-year reduction in management and administration expenses across the group. In terms of the four-year project to reduce annual management expenses by R750 million by F2019, MMI comfortably exceeded all its targets to date.
Investment markets, economic conditions and exchange rates	MMI's headline earnings and return on embedded value are strongly correlated to investment market conditions – particularly long-term interest rates (negatively correlated) and equity market returns (positive correlation). During F2017, weak local equity markets (especially during the last quarter of the financial year) impacted negatively on MMI's return on embedded value. Furthermore, the relative strengthening of the rand against other major currencies negatively influenced earnings from offshore operations (eg the UK business) when reported in rands. The impact of weak economic growth in South African (as measured by muted real GDP growth of 0.6% over the reporting period) could be felt in a number of areas, including sales and disability claims. Shareholder assets have been conservatively invested, primarily in cash or near-cash instruments. Hence, investment returns on shareholder funds were shielded from the poor equity market. performance over the period.

Momentum Retail

Momentum Retail offers a wide range of financial solutions to middle and affluent market segments.

Our product range spans all major insurance lines (life, disability, health, motor, property, and all-risks) and a wide range of savings and investment products. We differentiate our business through the quality of our advice channels and our commitment to high levels of client engagement to encourage our clients to make choices that optimise their financial and physical wellness.

Momentum Retail presently has 1.1 million clients who hold two million separate products. Our most popular product solutions are retirement savings and life insurance, both with around 500 000 policies in issue. Our fastest growing product segments are our open medical scheme (Momentum Health) and motor insurance sold by Momentum Short-term Insurance. Momentum Retail continuously scores high for client service and we are proud of the dedication of our 500 client service employees. Momentum Health recently took first place in the Product Supplier of the year – Healthcare category at the Financial Intermediaries Association Awards.

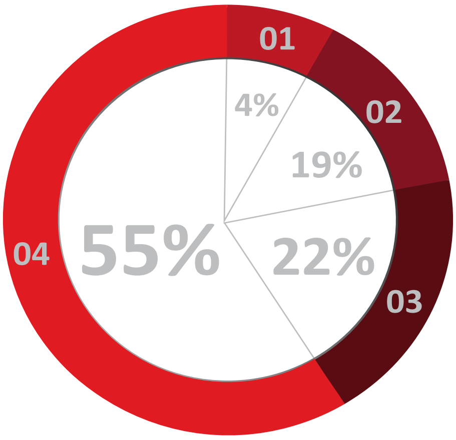
Khanyi Nzukuma
Chief executive Momentum Retail

"Momentum Retail presently has 1.1 million clients who hold two million separate products. Our most popular product solutions are retirement savings and life insurance, both with around 500 000 policies in issue."

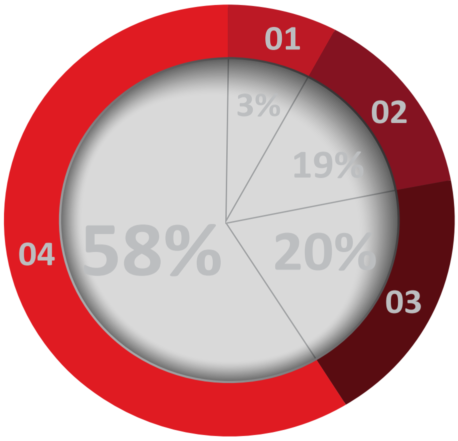
We secure roughly 55% of our new business through independent financial advisor (IFA) channels, with the remaining 45% secured predominantly through our agent channels. We also secure small volumes of new business through call centres and online channels. While we are pleased with our strong IFA market share, we are bolstering this channel with a greater presence in the agent channels and in alternative channels; we currently have 800 agents operating under the Momentum brand, a number that we plan to double in the next four years. The average productivity of Momentum agents is well above industry averages, but our sales force is too small when compared to our main competitors. We also believe that our client engagement strategy (“recipe for success”) is best delivered through distribution channels where we control the advice model.

Momentum Retail is closely associated with Multiply, our client engagement programme. At present, 80 000 Momentum Retail clients have activated Multiply, which increases to 130 000 lives if we include the spouses of clients who also enjoy Multiply benefits. Clients who have Multiply active on their policies enjoy premium discounts, partner rewards, and access to personal financial management tools. The scope of the discounts and partner rewards is a function of their Multiply status, which is in turn driven by positive physical (such as exercise) and financial (such as seeing a financial planner) behaviours by the client.

New business mix F2017



New business mix F2016



01 Life annuities
02 Protection
03 Savings
04 Investments

We plan to grow our Multiply membership significantly over the coming years. We are already seeing around 40% of new risk and savings business coming in with Multiply activated as part of the advice and sales process.

The figure above shows the split of sales volumes and new business profit by product segment (for covered business – ie business written on the life insurance licence).

Financial performance

As shown on the following page, all our profits still stem from our core life insurance operations. We are making significant investments to build competitive short-term insurance and health insurance operations, which should lead to more diversified earnings streams in due course. We also believe that we are currently not operating at our potential market share in the investments and savings space, where we aim to get traction through our Outcomes-based Investment offering.

Profits from life insurance underwriting activities have declined year-on-year due to higher than expected discounts offered to Myriad clients and a strengthening of the reserves.

Investment and annuity products reflect profits mainly from "spread business"; as such, decent credit spread income aided the result. The large volumes of guaranteed endowments sold in F2016 means that the asset base on which the spreads are earned are significantly higher in F2017 than previously. We also experienced positive mortality variance on the annuity book. The substantial decline in other life profits reflects the approximate R100 million discretionary margin releases of F2016 not recurring in the current year. Most of these discretionary margins relate to legacy books of business, and the releases of these liabilities flow through as part of the legacy profits. Besides the distortion from discretionary margin releases, the earnings were also negatively affected by lower profits on some savings plans with loyalty bonus features where we are now accruing more accurately for the future cost of these bonus features.

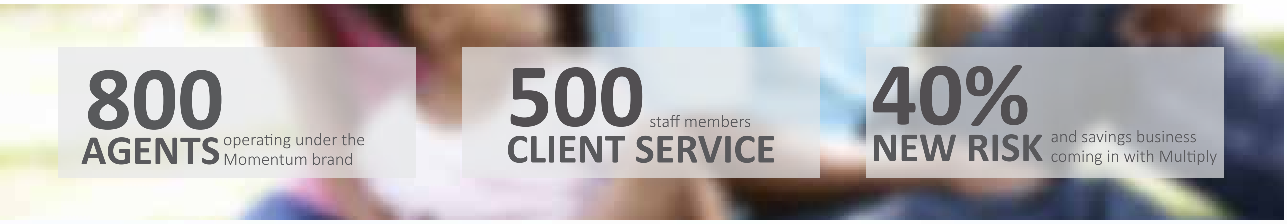
The non-covered Investment and Savings relates largely to our Momentum branded unit trust operations and part of the Momentum Wealth platform earnings. While Momentum SP Reid also reports as part of Momentum Retail, its contribution remains small. The earnings of Investment and Savings have declined due to weak asset growth, which in turn is a function of both muted investment markets and small net client outflows. We are also investing in the Momentum Wealth platform to improve the client and advisor experience, which has added to expenses for the year.

Health scheme administration refers to the Momentum Health open scheme, which has grown by more than 20 000 families in the past year to over 150 000 as of June 2017. The fast growth comes through in the narrowing of the losses for the health scheme; however, the scheme is still some way from operating at full scale, particularly with respect to distribution costs. Our short-term insurance business, Momentum Short-term Insurance, has grown the number of policyholders from 50 000 in June 2016 to 55 000 in June 2017. Similarly to Momentum Health, the short-term insurance business operates in an environment which is static, and as such, we are pleased with the double digit growth rates achieved by both operations. Momentum Short-term Insurance's losses are tracking to business plan, the increase in the loss shown below is due to the write off of the deferred tax asset in our short-term insurance administration company (MSTIA) largely offset by improved claims experience. Loss ratios are reducing as the book matures towards the ultimate loss ratios. The claims ratio for F2017 came in at 73% compared to 82% in F2016. We are particularly pleased that vintage curves for the claims ratios show that each subsequent update of our rating model is generating an improved claims experience.

Client Engagement Solutions' loss of R66 million is Momentum Retail's share of the expenses incurred in that Centre of Excellence. Although Multiply is the most visible component of Client Engagement Solutions, the programme is close to

Segmental **reviews** (continued)

Core headline earnings	F2017	F2016	Year-on-year (%)
Pure risk products (Myriad)	289	343	(16)
Investment and annuity products	418	305	37
Other life products (including legacy)	760	956	(21)
Life profits	**1 467**	**1 604**	**(9)**
Investment and savings	61	136	(55)
Health scheme administration	(29)	(43)	33
Short-term insurance	(162)	(151)	(7)
Client Engagement Solutions	(66)	(53)	(25)
Momentum Retail core earnings	**1 271**	**1 493**	**(15)**



self-funding. The R66 million loss mainly reflects significant investments into capabilities to differentiate Momentum from its competitors. We are particularly excited by the possibilities of the capabilities relating to data analytics, personal finance management tools, money management solutions, and significant improvements in how we leverage technology to enhance both the client and advisor experience.

In terms of embedded value profits, new business profits are down year-on-year and this was driven by lower new business volumes as well as a change in mix to lower margin products. The impact of the lower volumes was limited to some extent by changes in the risk assumptions and good expense management. The "unwind of the discount rate" item increased marginally due to the growth in the in-force book being offset by the run-off of the closed book business and corporate reserves. Experience variances declined year on year, mainly due to premium discounts offered to Multiply clients, strengthening of the reserves as well as lower critical illness and income protection profits. This decline was offset to some extent by positive expense variances, mortality profits and lump sum disability profits. Assumption changes contributed significantly to the EV earnings and relates to our actual morbidity experience being better than the current basis. The implementation of the yield curve in the valuation basis versus the previous point estimate also had a large positive impact, especially on our Myriad product. Investment income on shareholder funds has been relatively stable but the poor performance of investment markets severely impacted our expected future fees on investment business resulting in the large negative investment variance. The sharp decrease in the non-covered earnings reflect a lower directors valuation of our investment subsidiaries.

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	228	251	(9)
Unwind of discount rate	1 465	1 423	3
Experience variance	–	284	< (100)
Assumption Changes	537	(140)	> 100
Operating EV Profit	**2 230**	**1 818**	**23**
Investment income on net worth	269	269	–
Investment variance	(932)	(91)	< (100)
Economic assumption changes	(54)	(87)	38
Covered EV profit	**1 513**	**1 909**	**(21)**
Non-covered earnings	(479)	479	< (100)
Embedded value profit	**1 034**	**2 388**	**(57)**

Looking ahead

We are investing money and management time in the two primary areas of distribution and client engagement. We will continue to support both independent and agent/captive channels, but our way of working will change significantly in both channels going forward. We plan to recruit aggressively for agents who are aligned to our client engagement model, which will see those agents operating more consistently with our "Success Recipe for Financial Wellness" over time.

We are investing significant resources (in both people and technology) to move towards a model that seeks to maximise a client's Financial Wellness rather than product sales. One example of a tool that we are providing to our clients is the Financial Wellness wheel (see below), which pulls client data from various internal and external databases to provide an almost real-time view of their current financial plan. The wheel is available to both the client and the financial advisor, and helps them decide on the next steps in the financial planning process. Over time, the wheel will evolve to provide "next best opportunity" advice for our clients in optimising their Financial Wellness.

Besides our focus on making client engagement simple and seamless, we are assessing how we remunerate financial advisers operating under the Momentum brand. We are investigating broadening remuneration beyond selling to include the agent's success in further engaging clients through the Multiply programme and other Financial Wellness offerings.

We are also assessing our processes and practices in the independent distribution channel to encourage independent intermediaries to choose Momentum as their preferred partner. The revised model will need to work for intermediaries that fully embrace our engagement strategy and those that only want to use us as a product provider.

In addition to the distribution channel changes and the launch of the Financial Wellness wheel, we are introducing new value-added solutions and services in the coming year, including:

- Money Management – a personal financial management tool offering convenient budgeting tools and spending and savings tips.
- Safe Dayz – a feature on Momentum Short-term Insurance that rewards policyholders for responsible driving behaviour monitored via telematics.
- An online self-fulfilment capability for risk products – where purchases can be completed online rather than being directed to call centre.
- Multiply integration on investment and savings products.
- An improved website for both Momentum and Multiply.
- World-class mobile applications for clients to interact with us.

Despite the tough economic conditions and subdued earnings, Momentum Retail continues to focus on client experience and product enhancements that will improve our position in the middle and affluent market segment in the coming years.

Metropolitan Retail

Metropolitan Retail has 2.2 million clients across South Africa and across all industries.

In servicing its market for over a century, Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments. Metropolitan Retail's most popular products include funeral plans, savings policies, underwritten life cover policies, and annuities. Our funeral plans are low sum insured whole life policies designed to pay for funeral costs, and our success in this area has been achieved through our business model where underwriting is limited at inception and where claims can be paid out quickly. To extend our distribution channels and expand our solutions basket, Metropolitan recently partnered with African Bank to offer insurance and lending products to the existing Metropolitan client base. African Bank and Metropolitan only have about 20% existing client overlap based in the same segment they serve, which illustrates an upside on client acquisition for Metropolitan.

Khanyi Nzukuma
Acting chief executive Metropolitan Retail

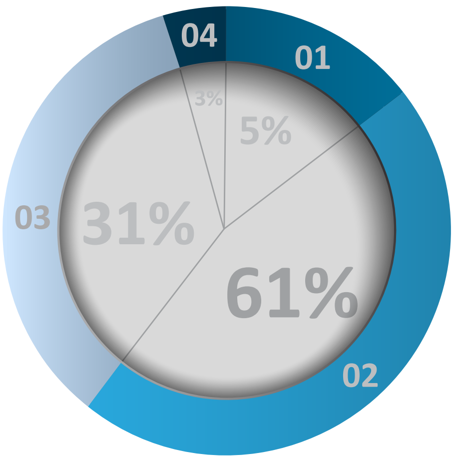
> "We have recently rolled out a number of modernised branches and plan to reinvigorate our branch sales through further refurbishments and opening additional points of presence."

Metropolitan Retail has 2.2 million clients across South Africa and across all industries. There is a historical bias in our business towards serving public servants (such as teachers, nurses and the army) but our success in expanding our agent footprint and worksite presence is giving us greater traction in the private sector. At present, more than 80% of our clients hold only one Metropolitan product, making improved cross-sell one of the key priorities for the business. We are also proud of the quality of our client service. The South African Customer Satisfaction Index (SAcsi) results showed Metropolitan as the best insurance brand in South Africa for 2015 and 2016 in terms of customer service.

About 78% of our business is secured through our own agents. Our agency force consists of field agents, telesales agents and supporting brokers, totalling 5 395. The field agents operate across 360 branches (with more than 360 branch managers looking after the large and widespread teams) and we have more than 110 unique points of presence across the country. We have recently rolled out a number of modernised branches and plan to reinvigorate our branch sales through further refurbishments and opening additional points of presence. Through our African Bank partnership, an additional 390 sales points/kiosks will open up for Metropolitan through our partner's branch network.

A key strategy to modernise our channels has been to align MMI's Financial Wellness strategy by transitioning our channels into an Omni-channel that focuses on life goal financial planning instead of product push. We are

New business mix F2017



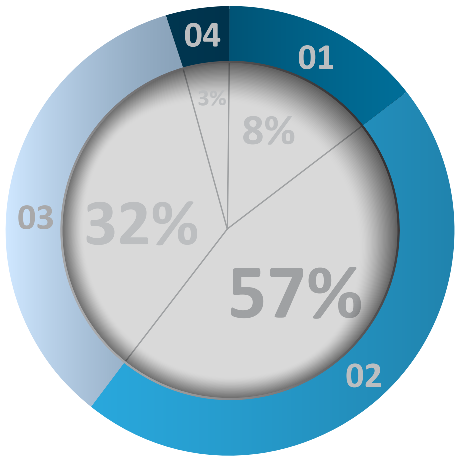
01
Life annuities

02
Protection

03
Savings

04
Investments

New business mix F2016



transitioning our processes and systems into one integrated system that will facilitate client engagement for sales and service across all channels, whether it is face-to-face, contact centres or web portals and mobi devices. The focus will be to create sustainable, long-term relationships with each client interaction. We are also modernising all our processes by removing all paper.

Figures above show the split of sales volumes by product segment. In the last year there has been a shift from annuity to protection business, the reason for this is twofold. The agent headcount has grown substantially during the last year and new agents tend to sell more protection business. Also from 1 March 2016, the compulsory preservation limit increased from R75 000 to R247 500. This signifies that members who retire with savings less than R247 500 are no longer obliged to invest their money in compulsory annuities, but are allowed to take the full amount in cash.

Financial performance

Almost all Metropolitan Retail's earnings are from life insurance activities – from underwriting death and disability risk, and from managing client assets held through endowment policies and personal pension policies (known as retirement annuities). The small loss shown as "Other" reflects our share of development costs around Multiply and Short-term Insurance. We believe that the lending joint venture recently launched with African Bank will result in growing non-covered earnings over the coming few years.

The biggest earnings driver was our "Legacy" book, which includes many of the older generation savings products and most of the universal life profits for Metropolitan. While the in-force expected profit on that book is shrinking slowly, profits from the annuity book improved partially due to favourable annuitant mortality experience. The credit risk variance for the period was also pleasing.

However, risk profits were down year-on-year, with lower profits reflected in three main items:

- The lapse experience weakened over the past year, moving from a small profit in F2016 to a small loss in F2017.
- The profit share arrangements on some group schemes have changed from an as-and-when basis to an upfront mechanism, which increases new business strain on these arrangements.
- As the risk book grows relative to other lines of business, it carries a larger share of overall segment expenses, with the increase in expense allocations resulting in weaker expense variance compared to what was achieved in the prior period. This can be considered as a contra-entry to the strong expense variances on Legacy products for the period.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Pure risk products	251	325	(23)
Investment and annuity products	124	105	18
Other life products (including legacy)	310	293	6
Life profits	**685**	**723**	**(5)**
Other	(25)	(23)	(9)
Metropolitan Retail core earnings	**660**	**700**	**(6)**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	178	191	(7)
Unwind of discount rate	578	535	8
Experience variance	20	81	(75)
Assumption changes	184	82	> 100
Operating EV profit	**960**	**889**	**8**
Investment income on net worth	157	155	1
Investment variance	(193)	41	< (100)
Economic assumption changes	(14)	(85)	84
Covered EV profit	**910**	**1 000**	**(9)**
Non-covered earnings	6	(84)	> 100
Embedded value profit	**916**	**916**	**–**

For embedded value profits, new business profits have declined slightly, which largely reflects a deterioration in early duration lapses, commission currently growing by more than volumes and a change in the mix of risk business sold. The "unwind of discount rate" line item has increased due to growth in the in-force book after strong sales performance in the prior year. Experience variance decreased year-on-year. In light of the tough economic environment, our lapse experience has weakened, although this was partially offset by excellent expense management and an improved mortality experience. The experience variance line also includes the impairment of an administration system asset. Investment income on shareholder funds is stable, and reflects both the high pay-out ratio and low risk investment strategy deployed. The sharp drop in investment variances reflects the negative effect of equity markets on current and future fee income, whereas the economic assumption change reflects the implementation of the yield curve in the valuation basis versus the previous point estimate.

Looking ahead

We have made great strides in rebuilding our agency force to nearly 5 000 agents after the distribution channel restructure started in 2014, and are now changing our focus to improving productivity across our sales force. At present, our agents sell around two policies per week, which we believe can be increased to around four policies per week. We will still recruit and train as required to enable the African Bank distribution channel.

Additional initiatives are also planned to improve productivity. We are enhancing our branch infrastructure to move it closer to the consumers it aims to serve. For example, many of our branches are in the centre of towns, rather than closer to residential areas. We are also looking to open branches that are more conveniently located for clients, for example in shopping malls, and will be refurbishing branches that are already well located.

To improve the efficiency of our branch managers, we will be investing in training and recruitment to ensure they have the requisite approach and coaching skills to support new agents for success. With each manager looking after around 15 agents, we have seen that the quality of the branch manager has a direct correlation on the likely success of new recruits and on the overall productivity of the agents.

We will also be making an investment into improving the management reporting tools for measuring the contribution of our worksite marketing sites. With over 1 000 worksites, it is an area that is gaining more traction and is an important point of presence where Metropolitan can market its products and where it has access to stop order facilities to collect premiums.

As seen in our initiatives for the coming year, our focus represents a shift from volumes, be that in sales force or opening new worksites, to a focus on productivity in driving higher policy sales, improving the skills of our managers, better locating branches, and assessing productivity in each of our worksites. Our core focus is on a Financial Wellness advice business, which will concentrate on assisting clients to meet their immediate planned and unforeseen expenses while achieving their medium-to long-term financial goals.

Corporate and Public Sector

We cover around 1.7 million employees across all industry segments and receive annual premiums in excess of R4 billion per year through this line of business.

Thinus Alsworth-Elvey
Chief executive Corporate and Public Sector, UK and Momentum Investments

Corporate and Public Sector provides insurance, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market. We cover around 1.7 million employees across all industry segments and receive annual premiums in excess of R4 billion per year through this line of business. We also have a strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions. Our umbrella fund product range (called FundsAtWork) has more than 300 000 members from nearly 5 000 employers, which makes us a leader in this area, particularly in the small and medium enterprise (SME) segment. The umbrella fund product range has almost R50 billion of assets under management and is strongly net client cash flow positive.

Most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers. However, our strong SME market share is mainly due to the strong support we get from smaller intermediaries that also support our retail business. We have been successful in sustaining support from our retail channels for our umbrella fund products, but will continue to develop and implement improvements.

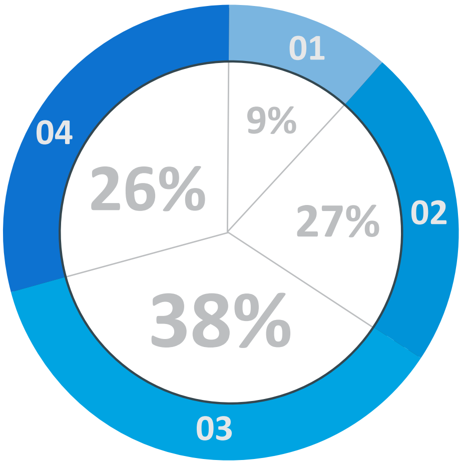
"Most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers."

In discussing new business mix for Corporate and Public Sector, stakeholders should be aware that large deals can skew sales figures significantly from year to year. For example, our annuity sales are currently running below historical averages, mainly due to limited activity in the pensioner outsourcing market. The percentages shown in the diagram on the following page could thus change quite materially in time. Overall, we believe that our business is overweight in our protection market share but underweight in investments and savings. Our annuity market share has also tended to be strong during periods of high pensioner outsourcing activity.

Financial performance

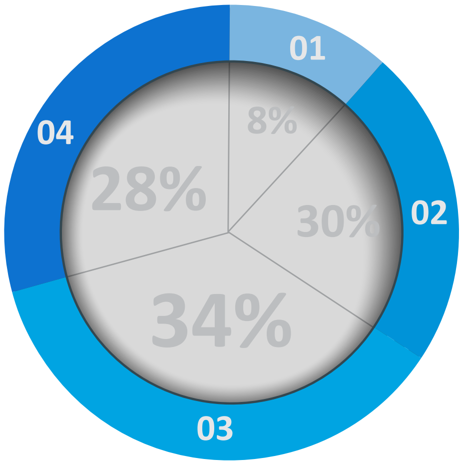
Corporate and Public Sector's earnings are derived from a diverse range of activities, where life insurance profits, short-term insurance, and health scheme administration all make material contributions to the segmental income statement (see diagrams on following page).

New business mix F2017



01 Life annuities
02 Protection
03 Savings
04 Investments

New business mix F2016



Life insurance profitability improved significantly during the year, mainly due to improved mortality underwriting profits as well as minimal expense growth. The positive mortality experience was still offset by underwriting losses on disability business. Disability experience tends to be pro-cyclical with economic conditions; as such, many of our competitors are also struggling in this area. We estimate that current underwriting profits are running at around R200 million below mid-cycle underwriting condition levels. Investors should note that annuity profits (mainly spread profits) are also recognised as part of the life insurance profit line, and these profits remain strong. Profits from our FundsAtWork umbrella range are included in the life insurance profit line as well.

Short-term insurance refers to the activities of Guardrisk, which derives most of its earnings from cell captive administration. The level of underwriting risk taken by Guardrisk is being increased incrementally over the coming years, but administrative (ie stable) profits should continue to be the main source of profit for the foreseeable future.

Health scheme administration refers to claims handling and other administrative services that we provide to large employer sponsored medical schemes. The largest client on our books is government, where we manage medical scheme records for nearly 700 000 families. Profits have declined year-on-year due to the loss of two large schemes during the prior year. We have completed the rightsizing of the business to reflect the loss of those clients and earnings are already showing good recovery.

Property management refers to our 76% interest in Eris Properties. Eris is active in property management, asset management and property development. Earnings in F2017 have benefited from some participation profits in property investments, and are likely to normalise somewhat in the coming years.

Retirement fund administration refers to administration work we do for large stand-alone retirement funds that outsource administration of member record keeping, member communications and other administrative tasks. We are a market leader in this field and one of few players who are profitable in stand-alone administration. We have approximately 34 stand-alone pension fund clients representing more than 500 000 members, on whose behalf we administer more than R200 billion of assets.

Our investment management profits have declined materially over the past year. One volatile item is performance fee income in Momentum Alternative Investments, which has declined significantly year-on-year. Average funds under management has also declined marginally for the institutional asset management operations. Finally, we are also incurring some start-up losses via our investments in Aluwani and RMI Investment Managers.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Life insurance	387	279	39
Short-term insurance	200	143	40
Health scheme administration	136	157	(13)
Property management	99	62	60
Retirement fund administration	18	15	20
Investment management	20	46	(57)
Client Engagement Solutions	(25)	(22)	(14)
Corporate and Public Sector core earnings	**835**	**680**	**23**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	68	199	(66)
Unwind of discount rate	595	612	(3)
Experience variance	(178)	(364)	51
Assumption changes	(295)	(729)	60
Operating EV profit	**190**	**(282)**	**> 100**
Investment income on net worth	145	115	26
Investment variance	(203)	(88)	< (100)
Economic assumption changes	(103)	98	< (100)
Covered EV profit	**29**	**(157)**	**> 100**
Non-covered earnings	786	771	2
Embedded value profit	**815**	**614**	**33**

For embedded value profits, new business profits are sharply down compared to the prior year. The main contributors to this were low margins on some large corporate risk schemes due to the competitive current environment and low sales for the period. We have taken corrective action in certain areas of the institutional sales environment to improve sales, but in those areas sales have been minimal, while trying to rebuild the relevant distribution teams. The "unwind of discount rate" line item has decreased due to the impact of additional group expenses being allocated to the segment and this reduced the opening value of in-force. We are pleased to show improvements in experience profits due to slightly better morbidity and retrenchment experience as well as some positive expense variances. Investment income on net worth stayed more or less flat, whereas investment variances reflect the impact of poor performance of investment markets as well as the impact of the credit downgrade on the cost of capital. Economic assumption changes decreased substantially compared to the prior year due to the widening of the gap between salary inflation and the risk discount rate. We project premiums forward with salary inflation, hence if the gap widens, the present value will be lower. The positive non-covered earnings reflect the ongoing growth of Guardrisk.

Looking ahead

Underwriting profitability is an urgent focus for Corporate and Public Sector management. We have been applying above-inflationary increases to close the gap on specifically group disability premium rates and current experience. Almost all risk premiums are annually renewable, which means that we have a contractual right to adjust premiums annually. We recognise that premium rate increases must strike a balance between reflecting recent experience and projections for longer-term experience.

We are also working hard to improve claims management. In disability insurance, this requires improving rehabilitation rates for current claimants, and we have been investing money and time to improve skills and processes in the claims handling teams.

We are continuously refining our product offering and service standards in our umbrella funds business. With the recent arrival of entrants into this market (whose value proposition is largely around costs), our focus is to ensure that our low-cost offerings remain competitive. We are also investing heavily in digitising and improving the on-boarding, off-boarding, claims and retirement experience for both members and administrative staff at employers (for example, their human resources teams).

Our investment management business has largely bedded down the Outcome-based Investment process and product offering. We are now focusing on converting our good investment track record to inflows, with plans to raise the profile of the investment offering with targeted marketing campaigns. In our health business, we continue to improve client experience following the migration to more modern systems during F2017.

As a strategic workstream, client engagement is critical for our long-term success. We are targeting greater levels of interaction and involvement with members and employers to deepen their relationship with us by integrating corporate products with Multiply, for example, topping up retirement savings via healthy living choices and providing useful information to employers such as our research on the impact of financial wellness on employee productivity. Success in client engagement initiatives will greatly improve our ability to introduce a wider range of MMI solutions to our membership base.

International

MMI International operates in the rest of Africa, India and the United Kingdom (UK).

We offer a wide range of solutions in these areas, with a focus on life insurance and health insurance products. In Africa, life insurance is offered in nine countries and health insurance offered in seven as well as in India. We recently launched our mobile life insurance joint venture with MTN (aYo) and so far the pilot businesses have been rolled out in Uganda and Ghana. At present our Multiply wellness programme is only active in India, where it complements the health insurance offering. We offer short-term insurance in Kenya, Swaziland and Tanzania and mainly asset management in the UK.

MMI International has just over 500 000 individual life insurance policies in issue in Africa and we cover around 600 000 lives in the group life insurance space. In terms of our health administration business in Namibia we have nearly 400 000 lives on the books, making us the biggest player in that market. In the short space of time since the launch in November 2016, the Indian health offering has over 200 000 lives on the books. The map to the right shows our international footprint.

Innocent Dutiro
Chief executive International

"MMI International has just over 500 000 individual life insurance policies in issue in Africa and we cover around 600 000 lives in the group life insurance space."

Our operations in each country tailor the distribution model to the needs of the market across tied agents, independent brokers, call centres, and mobile technology (employed through our joint venture with MTN). Most of our life insurance business is secured in Namibia and the southern African region, where agents are the main source of new business. In terms of premium income market share, we are the market leader in Lesotho, second in Botswana and third in Namibia.

In Kenya and Nigeria, we have a small market share. Our business in Kenya is weighted towards short-term insurance, whereas the Nigerian business mainly sells life insurance to companies wanting cover for their employees. Our Ghana business is more diversified and has sufficient scale to be operating profitably.

In India, Aditya Birla’s strong presence has helped to expand the footprint of the joint venture, already including nine branches in seven cities and an agency force of close to 2 000 agents. We aim to increase the number of agents to 10 000 by the end of the next financial year. We are providing digital solutions to Indian consumers to improve their access to products and increase our reach in the market.

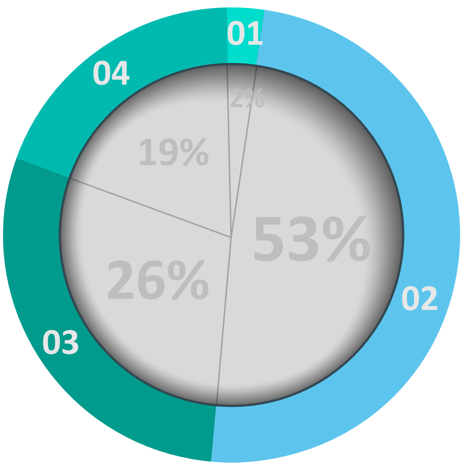
OUR SOLUTIONS

- Long-term insurance
- Health administration
- Pension fund administration
- Health solutions
- Asset management
- Short-term insurance

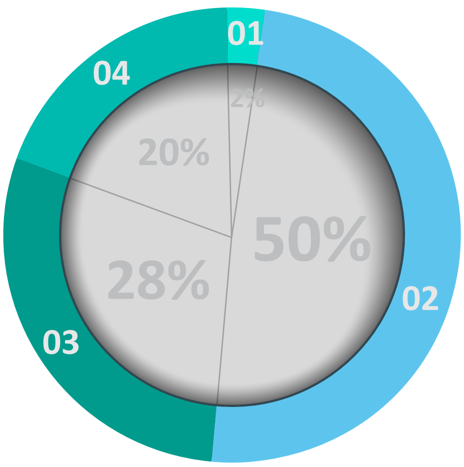
OUR SOLUTIONS IN THE UNITED KINGDOM

- Investment solutions
- Engagement solutions
- Investment administration
- Investment consulting

New business mix F2017



New business mix F2016



01 Swaziland
02 Namibia
03 Botswana
04 Lesotho

The figures above show the split of life sales volumes by country.

Financial performance

MMI International's life and health insurance activities in Africa and the asset management business in the UK were responsible for most of our earnings. However, our earnings were offset by losses in the non-covered life insurance and short-term insurance businesses, investments in new initiatives (in India and aYo), as well as expenses incurred at the centre to support in-country activities. The health joint venture in India will require ongoing investment over the coming years and is only expected to be profitable in five to seven years from now.

Covered life insurance earnings improved slightly, mainly due to steady growth in earnings in the covered life operations in Botswana and Southern Africa. The UK Investments business is also showing healthy profits after the previous year's loss. The non-covered life operations' losses increased mainly due to poorer claims experience on group life business in Kenya and higher effective taxes in Ghana. The health insurance operations include increased expenses on the India joint venture which is now fully operational. Ignoring this, the health business improved their earnings substantially following a premium rate increase on under-performing schemes and the adding back of the losses of our business exits. The short-term insurance business showed an increased loss mostly due to higher administration support costs, as well as losses in Kenya. Our centre expenses, included in other operations below, increased quite significantly this year.

Core headline earnings (Rm)	F2017	F2016	Year-on-year (%)
Life insurance	92	101	(9)
Covered	203	185	10
Non-covered	(74)	(46)	(61)
aYo	(37)	(38)	3
Health scheme administration	(82)	(68)	(21)
Health (excluding India)	66	(12)	> 100
India	(148)	(56)	< (100)
Short-term insurance	(80)	(54)	(48)
Client Engagement Solutions	(24)	(23)	(4)
Investment and savings	82	(19)	> 100
Other operations	(154)	(93)	(66)
MMI International core earnings	**(166)**	**(156)**	**(6)**

Embedded value profit (Rm)	F2017	F2016	Year-on-year (%)
New business profit	73	71	3
Unwind of discount rate	227	231	(2)
Experience variance	65	59	10
Assumption changes	(23)	(147)	84
Operating EV profit	**342**	**214**	**60**
Investment income on net worth	63	100	(37)
Investment variance	(21)	12	< (100)
Economic assumption changes	(29)	3	< (100)
Covered EV profit	**355**	**329**	**8**
Other	(833)	(197)	< (100)
Embedded value profit	**(478)**	**132**	**< (100)**

For embedded value profits, new business profits increased slightly, reflecting the underlying new business volume growth. The "unwind of discount rate" line item remained relatively flat as a result of muted growth of the in-force book. Experience variance increased slightly year-on-year mostly due to an improvement in persistency in Namibia and Lesotho.

Investment income on shareholder funds has declined and reflects capital depreciation on some of the assets. Asset values have also declined due to the rise in interest rates as most of the assets are held in bonds. The decline in investment variances mainly reflects the strengthening of the rand versus most currencies, decreasing the investment in rand terms in most of the territories. The non-covered earnings include the centre expenses. This has increased partly due to costs for short-term insurance and client engagement allocated to International increasing substantially from the previous year. Losses in our new initiatives and smaller life insurance operations are also included in this line item.

Looking ahead

MMI International recently performed a country-by-country assessment to determine our position in each market; we have decided to exit African countries where we are making continued losses or with limited growth opportunities. By narrowing our geographic footprint, we will be focusing on the profitable businesses with potential for long-term growth. Our main focus will be on the southern african region, where we are already seeing significant growth potential. The rationalisation of our Africa portfolio should also enable us to reduce the centre expenses in due course.

We aim to maintain our strong market leadership in Namibia by leveraging our brand strength to improve persistency and cross-selling, improving efficiencies to support margin growth and maintaining our strong agency network. We are also in the process of establishing a short-term insurance company in Namibia.

In Botswana and Lesotho we plan to double earnings by 2022 and to this end we will expand our product offering, broker network and the service and administration capacity. As part of this goal, we will also diversify distribution and service channels.

We will continue to invest in our India health joint venture over the next five to six years and remain excited by the potential of this business. We are fortunate to have a strong partner in Aditya Birla and are gaining traction in this market faster than expected. The business is currently weighted to group business but we intend to gain more retail clients as we build the business and consumer brand awareness improves.

Investment in our mobile insurance venture (aYo), will also continue and if the pilot shows promise the business could be scaled up quite rapidly.

In the UK, we are planning to strengthen our distribution capability in South Africa to regain market share in the flows originating from South Africa. On the other hand, we are reducing our ambitions in the domestic UK retail market.

Our investment philosophy

OUTCOMES-BASED INVESTING

Introduction

MMI has followed an Outcomes-based Investment (OBI) philosophy from 2006 on some of our assets under management. In 2014, we formally launched it as our core investment management offering, and we have started to manage segment assets on this basis from 2017 onwards.

What is OBI?

The key features of OBI are setting the appropriate investment target over the time frame and with consideration for customer's risk tolerance, matching these with the outcomes-based portfolio management process, and then providing meaningful and regular feedback in order to keep the customer on course to the financial targets set initially. This contrasts with a more generic investment strategy that is set relative to benchmarks and peer comparisons without specific reference to an investor's particular needs.

Why has MMI implemented OBI?

MMI has selected the OBI approach, as it is a well-aligned and complementary enabler of the client-centric strategy. This centres on our core fundamental purpose to enhance the lifetime Financial Wellness of all our clients.

Outcome of MMI's OBI approach

The focus of the OBI philosophy of Momentum Investments is to deliver on clients' expectations. The performance track record of the relevant portfolios has been very good. Our Enhanced Factor 7 funds, which target CPI + 7% p.a. returns over a seven year investment horizon, have generated annualised returns of 14.5% p.a. over the past seven years – thus beating the target return by 2% p.a. Similarly our Enhanced Factor 5 funds have generated 11.0% pa returns over the past five years, thus exceeding the CPI + 5% target return over the period.

Momentum MoM Enhanced Factor portfolio range returns as at 30 June 2017

Portfolio	One year	Three years	Four years	Five years	Six years	Seven years
Momentum MoM Enhanced Factor 7	2.7%	7.3%	11.6%	14.0%	14.0%	14.5%
CPI +7%	12.5%	12.4%	12.7%	12.7%	12.7%	12.5%
Strategic benchmark	2.0%	7.6%	11.6%	14.0%	14.0%	14.7%
Momentum MoM Enhanced Factor 6	2.6%	7.3%	11.1%	13.1%	13.1%	13.5%
CPI +6%	11.5%	11.4%	11.7%	11.7%	11.7%	11.5%
Strategic benchmark	2.6%	7.8%	11.1%	13.3%	13.5%	13.8%
Momentum MoM Enhanced Factor 5	2.5%	7.4%	9.9%	11.0%	11.3%	11.9%
CPI +5%	10.5%	10.4%	10.7%	10.7%	10.7%	10.5%
Strategic benchmark	2.8%	7.6%	9.8%	11.2%	11.8%	12.3%
Momentum MoM Enhanced Factor 4	2.6%	7.0%	9.2%	9.8%	10.0%	10.5%
CPI +4%	9.5%	9.4%	9.7%	9.7%	9.7%	9.5%
Strategic benchmark	3.4%	7.3%	9.0%	10.1%	10.7%	11.0%
Momentum MoM Enhanced Factor 3	2.1%	6.6%	8.5%	8.7%	9.2%	9.1%
CPI +3%	8.5%	8.4%	8.7%	8.7%	8.7%	8.5%
Strategic benchmark	3.7%	7.1%	8.5%	9.3%	9.8%	9.7%

Notes

1. *Returns for periods exceeding one year are annualised.*
2. *All returns quoted are before the deduction of fees, except where a portfolio includes underlying investments where fees are deducted from the return, but after the deduction of performance-based fees.*
3. *The inception date of the combined local and global portfolios is 1 July 2011. Actual portfolio and benchmark returns have been used since 1 July 2011. Portfolio and benchmark returns for longer periods are based on mappings from certain old portfolios to the new portfolios. Further details on these mappings can be located on each portfolios respective fund fact sheet.*

MMI Holdings

- Received a **Legends of Empowerment Honorary Award** in the Oliver Top Empowerment Awards.
- In June 2017 MMI Holdings was included in the FTSE/JSE Responsible Investment Top 30 Reserve list.
- MMI Holdings confirmed as a FTSE4Good Emerging Index constituent.

Momentum

- Momentum Growth Enhancer won the **African Deal of the Year Award** in the inaugural Africa Structured Products and Alternative Investments Awards hosted by Structured Retail Products.
- Momentum's Client and Intermediary Interaction team won the **Ask Afrika Orange Index Award** for best customer service in South Africa, in the Long-term Insurance Industry category.
- Momentum Health took first place in the **Product Supplier of the Year – Healthcare category at the Financial Intermediaries Association (FIA) Awards** in June.
- During 2016, the OSTI received 9 423 complaints in total, with only 97 (1%) relating to Momentum Short-term Insurance. Momentum Short-term Insurance recorded an overturn rate of only 4.29%, significantly below the industry average of 27.27%. This overturn rate is the lowest of any insurer in the South African industry, where the OSTI received more than one complaint for the period.*
- Momentum's Smart Exit solution, developed together with Accenture, won the **gold award** in the **Service Design category at the Loeries**.

Metropolitan

- Ranked first in the **South African Customer Satisfaction Index** for life insurance, with consistent improvement over the last three years to attain a score of 82.6 – placing us well above the industry average of 79.

Momentum and Guardrisk

- Momentum and Guardrisk were finalists in five out of the ten categories at the **2017 FIA Awards**.

** The Ombudsman for Short-term Insurance (OSTI) is an independent mechanism clients in the short-term insurance industry can use to resolve disputes they have with their insurers. On an annual basis, the Ombudsman publishes a report providing detailed complaint statistics per insurer, providing an insightful perspective on how fairly insurers handle claims. The key measure to consider is the overturn rate, which indicates the proportion of complaints that were overturned by the OSTI, with some benefit going to the complainant. This measure best indicates the correctness and fairness of the insurer's claim decisions.*

Our people

Our purpose

Our people are ambassadors of our Financial Wellness purpose and operationalising our client-centric strategy, key to achieving our success.

Our culture

We believe that our Financial Wellness purpose and values-driven culture is our true source of sustainable competitive advantage for our company, and it is the unique combination of our culture and our people that differentiate us in the market.

MMI operates within a values-based culture that defines the way we work, which we call the MMI Way. The MMI Way is based on our values of accountability, integrity, teamwork, diversity, innovation and excellence, with each value brought to life through defined behaviours. These behaviours support our interdependent and collaborative operating model, and guide the way we interact and make a difference in the lives of our employees, clients and the communities in which we operate. Through our MMI Volunteers platform, we strive to meet the needs of various communities by leveraging the vast set of skills that our employees have to offer, to have a positive impact and affect the lives of the communities we serve.

We endeavour to create an environment wherein our employees feel valued and appreciated. We offer developmental opportunities that inspire employees to advance their careers. In line with MMI's purpose, we consistently look at ways to enable the Financial Wellness of our employees and their families.

As part of our Employee Value Proposition (EVP), our employees can participate in the offerings and benefits across MMI, such as advancing and unlocking their total Financial Wellness through the Multiply wellness and reward programme. Where applicable, we offer reduced rates and discounts to our employees, so contributing to the Financial Wellness of our employees and their families. Our comprehensive EVP covers the financial, emotional and physical needs of our employees, supports their career and growth aspirations, and embraces their family and community involvement.

Focus

MMI's Human Capital team is a partner to business in delivering on MMI's strategy, by offering people solutions that are relevant to achieving business results. Our focus for the next financial year is to:

- Enhance business performance through our world class Performance Excellence.
- Optimise organisational effectiveness for efficiency, agility and innovation.
- Develop dynamic outperformance-driven leaders who create an enabling culture for our people to thrive.

Talent

Investing in our people's growth and development is pivotal to our success. In 2016, we spent R150 million on skills development. Through our formally accredited programmes that align to the National Qualification Framework, we have trained 529 black (African, Coloured and Indian) employees. A further 10 845 black employees have been trained in occupationally-directed informal programmes, which are designed for staff and include (but are not limited to) roles such as administrative marketing/sales, compliance, technical, management and leadership. We also invested in learnerships for 835 black learners; 655 of these learners were employed learnerships, with the balance of 180 learners being unemployment learnerships. These are some of the imperatives that show our commitment to achieving B-BBEE.

MMI's orientation towards excellence in the workplace is a strategic focus area. In building our skills base, we have increased scarce and critical skills in the actuarial job category by a further 23% over previous years. As part of the ambition to promote MMI as an employer of young dynamic actuaries, MMI is a main sponsor of the 2017 Actuarial Society Convention. This provides MMI with an exciting opportunity to showcase the unique culture of MMI and the areas of work where actuarial skills are needed.

To support our ongoing success, MMI continues to attract, upskill, retain and empower employees to reflect the workforce of the future. As of 31 March 2017, 73% of new employees were under the age of 35, and in 2016, the number of student actuaries increased by 81%; this reflects our drive to attract and retain young talent. Also, as a percentage of total employees, females represent 64% of our employed staff complement, which demonstrates our success in driving greater representation of females in the workplace. We stand by the principle that continuous and inter-generational learning across the group encourages respect for diversity and creates an enabling environment for innovation to take theme.

Innovation through diversity

MMI has a deep understanding that a diversity of perspectives supports a greater understanding of our clients, their needs and aspirations. Global trends indicate that to meet the critical skills required in the future, organisations will need to emphasise cross-cultural competencies and the role of social intelligence to create a culture of innovation. Also, organisations that want to match the rate of innovation and technology advancements will need these competencies to help manage relationships, and create agile organisations, virtual collaborations and trans-disciplinary approaches to thrive in a new world of work. Consequently, we encourage our diverse employee segments and supply chain programmes to innovate in the way they work, and design and deliver solutions.

Our learnerships, bursaries, internships, work integrated learning, in-house informal training and enterprise development programmes all encourage collaboration among diverse groups across MMI. This helps our business to keep up with global trends and remain relevant to our clients, brokers and suppliers. As a learning organisation, our structures and common purpose encourage collaboration, knowledge-sharing and teamwork – with innovation and interdependence as the key ingredients that make our environment work.

The Human Capital team takes joint accountability for driving business success, and for developing the talent of our people, brokers and suppliers. In 2018, we will strive to achieve excellence in everything we do to realise MMI's purpose of enhancing the lifetime Financial Wellness of people, their communities and their businesses.

Number of employees	**30.06.2017**	**Restated 30.06.2016**
Indoor staff	**9 199**	10 077
Segments		
Momentum Retail	**1 233**	1 360
Metropolitan Retail	**923**	1 215
Corporate and Public Sector	**987**	1 021
International	**1 215**	1 295
Centres of Excellence		
Investments and Savings Solutions	**520**	511
Legacy Solutions	**224**	211
Life Insurance Solutions	**473**	487
Health Solutions	**2 333**	2 591
Short-term Insurance Solutions	**283**	283
Multiply	**128**	149
Group services divisions	**880**	954
Field staff	**8 031**	7 483
Momentum Retail	**1 130**	1 111
Metropolitan Retail	**5 395**	4 804
International	**1 506**	1 568
Total	**17 230**	17 560

Transformation **review**

At MMI, we consider broad-based black economic empowerment (B-BBEE) and transformation as essential to achieving MMI's vision of being the preferred lifetime Financial Wellness partner with a reputation for innovation and trustworthiness. B-BBEE underpins our purpose to enhance the Financial Wellness of people, their communities and their businesses, especially considering that South Africa continues to grapple with inequality, lack of access to financial services and a lack of financial literacy, amongst other issues.

We constantly strive to reflect the demographics of the communities in which we operate, and believe in the significant value of diversity in realising our strategy. Our aim is to effectively engage our diverse local and global client base with the support of a transformed composition of MMI leaders and employees alike.

We are guided by the Financial Sector Code (FSC) in delivering our B-BBEE and transformation objectives. Finalised in 2012, the FSC is undergoing a re-alignment process with the revised Department of Trade and Industry generic Codes of Good Practice issued on 11 October 2013. MMI is an active participant in this process through the Association of Savings and Investments in South Africa (ASISA).

in South Africa. Our ESD strategy moves beyond compliance, and we seek to create win-win solutions where we can drive efficiency and resilience into our supply chain with our business partners, while delivering measurable social impact at scale.

We see entrepreneurship as a key driver for economic and socio-economic improvement, supported by our ESD strategy that promotes impactful development of small and medium enterprises.

The Masikhulise ("together we grow") Trust houses all MMI's ESD initiatives. It has made significant contribution to ESD, currently through recoverable investment and grant programmes.

As part of our recoverable investment programme, we have invested R50 million into the ASISA ESD Fund, which supports beneficiaries in the financial services sector by creating access to finance and to markets. The Fund is highly successful with contributions stemming from a number of ASISA member organisations.

In the grant programmes space, MMI has partnered with Aurik Business Incubator to facilitate an enterprise development programme providing business development support for 12 beneficiaries, aiming to integrate them into the MMI supply chain. We have also partnered with ASISA to facilitate two broker development programmes, namely the Momentum Masibambane ("let's hold hands") Broker Development Initiative and the Metropolitan Masithuthuke ("let's develop together") Broker Initiative. Through Masibambane, MMI has provided support to eight brokerages in the middle market segment. Building on the progress made in the Masibambane initiative, MMI launched Metropolitan's Masithuthuke, which provides a great opportunity for MMI to contribute to the sustainability of the brokerage business as well as the transformation of South Africa's insurance industry.

MMI Holdings FSC scorecard

Element	Maximum points*	MMI 2016	MMI 2015
Equity ownership	14.0	**17.0**	17.0
Management control	8.0	**8.7**	8.3
Employment equity	15.0	**9.0**	8.8
Skills development	10.0	**9.0**	9.0
Preferential procurement	16.0	**16.0**	14.6
Enterprise development	5.0	**5.0**	5.0
Socio-economic development	3.0	**3.0**	3.0
Empowerment financing	15.0	**15.0**	14.4
Access to financial services	14.0	**10.6**	10.8
Total score	100.0	**93.4**	90.9
Performance (%)		**93.37**	90.08
B-BBEE rating		**Level 2**	**Level 2**

** Excluding bonus points.*

MMI has made improvements in our transformation score from 2015, with most of the increase in points due to efforts in preferential procurement. We have increased our spend on black owned (greater than 51%) and black women owned (greater than 30%) companies who are also Qualifying Small Enterprises (QSE) and Exempted Micro Enterprises (EME). MMI has also adopted an integrated approach between preferential procurement and enterprise and supplier development (ESD).

Enterprise and supplier development

One of the ways in which MMI contributes to Financial Wellness is by creating opportunities for greater inclusivity in business supply chains, thereby enhancing economic empowerment

MMI believes that ESD is a powerful tool to create jobs and address poverty, hence our focus on the creation of sustainable black businesses in support of Financial Wellness. Furthermore, we support the National Development Plan (NDP) and firmly believe that ESD is the key driver to reduce poverty in South Africa.

Preferential procurement

MMI is proud of our progress in procuring from black and black women-owned suppliers who are QSEs and EMEs. We also have a requirement that these suppliers should be empowering their suppliers. We have established and maintain a database of B-BBEE-compliant vendors, which are utilised for any existing and new procurement requirements.

We encourage the establishment of value-adding joint ventures between traditional non-transformed suppliers and B-BBEE enterprises, where the latter gain access to skills and technologies to support sustainable growth.

In any tender process, MMI encourages respondents to form joint ventures with black-owned/black women-owned entities, or to sub-contract a minimum percentage from black-owned/black women-owned entities. At the contract negotiations phase, as part of appointing any new supplier or existing supplier, our suppliers are required to submit a B-BBEE improvement plan detailing how they will improve their B-BBEE status over the term of the contract. MMI then monitors and measures progress throughout the contract.

MMI encourages all our suppliers to source products and services from B-BBEE-compliant vendors who are empowering suppliers. We are committed to moving beyond compliance in our procurement strategy, and believe that supporting the growth of small to medium enterprises contributes to economic growth in South Africa.

Employment equity

Since the approval of our employment equity (EE) plan by the Department of Labour, MMI reported for the first time in December 2016 and we will remain under the Department of Labour inspection for the duration of our EE plan ending in 2020. We have set aggressive EE targets at a segmental level.

The current challenge facing MMI is increasing the number of African males and African females at senior and middle management, and the recruitment, retention and disclosures from people with disabilities. MMI does exceptionally well with diversity and black representation at its top management level. This was further enhanced by the promotion of Mary Vilakazi to deputy CEO and the appointment of Ashlene van der Colff as group head of operations to the MMI executive. Through our values-based culture, the MMI Way, we believe that embedding this will have a significant effect on attracting and retaining appropriate talent.

Skills development

We at MMI see the development of skills as one of our key drivers for our business, which we believe will make a major impact on the economy in the medium to long term. As such, out of our seven learnership programmes, for 2017 we currently have three programmes that directly relate to the unemployed youth. These programmes run over a 12-month period. The benefit for the organisation of these programmes is that they are specifically and strategically designed for our sector, and then embedded within the context of MMI's talent development objectives and goals.

MMI Holdings employee profile (South African operations only)

	South African								Foreign nationals		% Black people	% Black female	Grand total
	African		Coloured		Indian		White						
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male			
Dec 2014	5 267	3 025	1 616	913	657	512	2 068	1 371	50	69	77.12	48.49	15 548
Dec 2015	4 614	2 717	1 556	842	649	522	1 967	1 288	66	70	76.27	44.57	14 291
Dec 2016	**5 316**	**2 879**	**1 433**	**789**	**645**	**509**	**1 918**	**1 185**	**40**	**56**	**78.34**	**50.06**	**14 770**

Social and environmental **indicators**

Creating social value

The South African National Development Plan (NDP) and United Nations Sustainable Development Goals (SDGs) have a similar purpose and timeline. Through our strategy and commitment to Financial Wellness, MMI is a partner in assisting in attaining the SDGs (and thereby, also the aspirations of the NDP) in the following ways:

- Providing annuity and retirement solutions, which promote saving and provide Financial Wellness over the long term.
- Providing financial access to individuals particularly in the emerging market space.
- Providing access to microfinance.
- Providing short-term insurance, which promotes safety and security measures, and rewards clients who implement these.
- Providing the Multiply wellness and rewards programme, which encourages our clients to improve various elements of their wellness, which will ultimately enhance their total Financial Wellness. The four areas of wellness that Multiply aims to drive positive client behaviour in are: Physical Wellness, Education, Safety and Financial Wellness.
- The Health Centre of Excellence promotes and manages the health of individuals to relieve the health burden on the government as well as ensure the longevity and good health of its members.
- Investment in infrastructure and renewable energy.
- Ensuring responsible management of our client's assets and money.
- Ensuring we participate in achieving the aims of the global Paris Agreement, of which South Africa is a signatory, by reducing our carbon emissions.
- Ensuring we put client centricity at the heart of our business and thereby embed the principles of treating customers fairly. We actively manage the process of implementation and monitor progress on a monthly basis.
- Exploring, developing and providing innovative solutions to provide continuous enhancement of our Financial Wellness offerings.

In acknowledgement of our environmental, social and governance (ESG) achievements, MMI is listed on the FTSE/JSE Responsible Investment Index, and is on the FTSE/JSE Responsible Investment Index Top 30 Reserve List.

In addition to this, the FTSE Group confirms that MMI Holdings has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

Responsible investing

MMI promotes acceptance and implementation of the United Nations Principles for Responsible Investment (PRI) and the Code for Responsible Investing in South Africa principles. As part of Momentum Investments, which houses the MMI investment business and capabilities, Momentum Outcome-based Solutions and Momentum Asset Management are signatories to the PRI. The company is proud to have served on two working committees of the PRI since 2009, having been one of the first signatories from South Africa. MMI collaborates with other industry bodies, interested parties, service providers and others on ESG, through engagement, network discussions and various initiatives.

Momentum Investments constituted the responsible investment committee, which sets policy and provides oversight of MMI's efforts in responsible investment, with member representation from across the business. Each year, Momentum Investments reviews the responsible investment initiative and sets new annual goals. Considering MMI's purpose, the use of responsible investment practices is crucial to achieve our purpose. Momentum Investments understands that long-term success can only be built through sustainable and responsible investment practices.

Momentum Investment's investment philosophy is an outcomes-based investment approach, which requires managing our clients' experience and journey to achieve a defined investment goal over the determined time period. We understand that ESG risk factors affect the sustainability of companies and are therefore especially relevant to the company's investment decision-making process.

The following policies guide our investment approach:

- Conflict of interest management policy.
- Responsible investment policy available on **www.mmiholdings.co.za**.
- Proxy voting guideline policy.

Momentum Outcome-based Solutions' and Momentum Asset Management's annual detailed responsible investment activities are reflected on the PRI website **www.unpri.org/signatories**. Both business entities provide a transparency report, which is also publicly available to local and international audiences.

An overview of some of the ESG activities that form an integral part of ongoing investment and business interests for entities within MMI are listed below:

- Entities 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.
- Momentum Outcome-based Solutions has integrated ESG further into its investment manager due diligence process through active engagement, having taken guidance from the PRI.
- Momentum Outcome-based Solutions offers a responsible investment portfolio, which is called the Momentum MoM SuperNation Portfolio. This investment portfolio is holistic and comprehensive, and compliant with Regulation 28 (of the Pensions Fund Act, 24 of 1956); it 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.
- Momentum Outcome-based Solutions believes in the integration of responsible investment within the investment portfolio offerings. This includes, among others, specifically focused responsible investment building blocks in the company's "best ideas" Factor Series™ range of portfolios.
- Momentum Asset Management has been a member of the International Corporate Governance Network 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.
- Momentum Investments' proxy voting policy is available on request. The proxy voting policy and guidelines are aligned with the Companies Act, PRI, King IV and various global industry association codes.

The role of corporate social investment

MMI established the MMI Foundation to provide strategic oversight and governance, as well as play an advisory role for all corporate social investment initiatives undertaken by our client-facing brands. The MMI Foundation's mission is to contribute to the social and Financial Wellness of communities, and bring about sustained change. To date, its social investment has been in the areas of health, disability, education and sports development.

However, given some of the current challenges facing South Africa, the MMI Foundation will be more deliberate in supporting the youth in their quest to become employable, financially well and active citizens of the country.

The Financial Sector Charter Codes stipulates that 1% of NPAT must be dedicated to Corporate Social Investment, of which 60% must be spent on socio-economic development (SED), and 40% on consumer education. Through the MMI Foundation, MMI's targeted spend on SED is 0.6% of net profit after tax (NPAT) and 0.4% for consumer education (CE). For the 2016 calendar year, more than R29 million was spent on qualifying initiatives. The weighted contribution for SED equated to 1.2% of NPAT and 0.9% for CE. In the last calendar year, the MMI Foundation invested in the following focus areas:

- Over R8.4 million on education.
- Over R4.2 million on health.
- Over R1.9 million on disability.
- Over R2 million on sports.
- Over R12.6 million on consumer education.

MMI Foundation project overview

The projects in the MMI Foundation's portfolio currently range from grassroots initiatives to participation in large-scale collaborative partnerships. Some of the projects overseen by the MMI Foundation include:

- National Education Collaboration Trust (NECT) – a partnership between business, trade unions, non-governmental organisations (NGOs), civil society and government to support and influence the agenda for educational reform. The NECT is committed to ensuring that 90% of learners pass mathematics, science and languages with at least 50% by 2030 in South Africa.
- Live the Future – the non-profit organisation Afrika Tikkun has managed Live the Future on behalf of the MMI Foundation since March 2016. The programme focuses on HIV/AIDS awareness and mobilises communities through peer education in primary healthcare facilities and community outreaches to take control of their own health and wellness.
- UJ Metropolitan Academy – based in Johannesburg and in partnership with the University of Johannesburg (UJ), the UJ Metropolitan Academy focuses on maths and science, offering learners from disadvantaged backgrounds an

opportunity to prosper and excel in these subjects, and pursue their tertiary education ambitions in professions requiring a strong base in maths and science.

More detail on these and other initiatives are available on the MMI Foundation website **www.mmifoundation.org.za.**

Consumer education

The MMI Foundation supports various financial literacy programmes that assist consumers in various communities to make better-informed transactional decisions. These programmes directly link to MMI's purpose of enhancing Financial Wellness.

Our approach includes face-to-face workshops with NGO partners and media-based awareness programmes. Motheo Financial Dialogues was a financial literacy series aired on Khaya FM with supporting workshops conducted at various work sites and community centres. In 2016, we strengthened our focus on financial education programmes aimed at Grade 10-12 learners. In addition to the Making Money Matter board game, which teaches high school learners the basics of financial literacy, Metro Kickstarz was launched to encourage an entrepreneurial mindset among high school learners.

Further details on these initiatives are available on the MMI Foundation website **www.mmifoundation.org.za.**

Sponsorships

Metropolitan and Momentum have various sponsorships that build brand awareness, enhance visibility and support the group's focus on creating prosperity and ensuring Financial Wellness. These include:

- Metropolitan Mojo road running series.
- Metropolitan: Clash of the Choirs.
- Momentum: Official sponsor of all One-Day Cricket in South Africa.
- Momentum: Official sponsor of the Momentum Proteas national women's cricket team.
- Momentum and Pick n Pay: Lifestyle events partnership including:
  - The Cape Town Cycle Tour, the Stellenbosch Wine Festival and the Knysna Oyster Festival.
- Momentum Health/DRYLAND mountain bike events.
- Multiply: Official team sponsor of the Multiply Titans, a local franchise cricket team.

Momentum and the University of South Africa – purposeful collaboration

In 2012 Momentum teamed up with the University of South Africa (UNISA) to present independent and credible research into the state of the nation's Financial Wellness.

Further research indices introduced in 2016 and in 2017 included insights into consumer and employee financial vulnerability and the drivers of employee productivity.

- Momentum/UNISA Household Financial Wellness Index (annual).
- Momentum/UNISA Household Wealth Index (quarterly).
- Momentum Corporate and Public Sector Consumer Financial Vulnerability Index (CFVI).
- Momentum Corporate and Public Sector/UNISA Employee Financial Vulnerability Index (EFVI).
- Momentum Corporate and Public Sector/UNISA Effective Employee Index (EEI).

Carbon footprint

MMI participates in the CDP annually and our submission is publicly available on the CDP website at **www.cdp.net**.

In enhancing its 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 is building a better understanding of climate change to more appropriately protect itself and its clients against adverse events due to climate change, by quantifying weather-related risks and developing unique offerings for the benefit of client safety and Financial Wellness.

MMI's total carbon emissions for the period 1 July 2015 to 30 June 2016 was 73 140 metric tons, a 4% reduction on the prior year. 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 continue to concentrate most of our efforts on reducing our electricity usage.

MMI has established the F2014 financial year as the baseline year against which we set carbon emission targets. The board has approved a 12% reduction in carbon emissions by 2020. As part of this process, carbon emissions will be monitored to ensure that appropriate initiatives are implemented to meet the set target, and our progress in reducing carbon emissions will continue to be reported annually in the CDP.

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

As an active corporate citizen of South Africa, Africa and the world, and aligned to our purpose, MMI aspires to be known as a nation builder. Consequently, we participate in specific nation-building initiatives and encourage nation-building dialogues that assist the countries in which we operate to openly discuss and reach consensus on key policy choices to move nations forward. Facilitating and participating in these dialogues and strategic platforms has become an important part of our stakeholder engagement approach and a critical contributor to our business sustainability strategy.

At MMI, we understand the importance of engaging with our stakeholders in developing effective client-centric solutions that address the socio-economic needs of various interest groups. The information we gather through these engagements helps shape our thinking when we develop products and engage with clients, policy makers and regulators. Also, in facilitating engagement among stakeholders, MMI receives valuable insight and guidance that helps deepen our role as a responsible corporate citizen in helping to address the broader socio-economic issues that face our country.

MMI has grown the number of platforms, programmes and events to ensure regular and meaningful engagement with our stakeholders, which continues to deepen the dialogue and quality of the relationships. In F2017, we have successfully built on work done in previous years.

World Economic Forum – Africa Skills Initiative

In 2015, MMI joined the World Economic Forum (WEF) as a Regional Associate for Africa. In 2016, our CEO, Nicolaas Kruger, was appointed as the project chair of the project board of the Africa Skills Initiative. The WEF launched the Africa Skills Initiative in 2014, focused on bringing together stakeholders from business, government, civil society, and the education and training sector to reduce unemployment and address skills gaps on the continent.

The Africa Skills Initiative aims to:

- Close skills gaps in the Africa region and contribute to the global goal of equipping one million people with employable skills by January 2018.
- Engage the private and public sectors in broader, long-term reform of education and skills systems to prepare for the future of jobs.

The WEF developed a report, the Regional Future of Jobs Briefing on Africa, which provides insight into the current human capital landscape in Africa. The document was made available in May 2017 at the World Economic Forum on Africa. As Project Chair of the Africa Skills Initiative, Mr Kruger participated in relevant sessions during the Forum on Africa, with this public-private partnership making an active contribution to reducing unemployment and addressing skills gaps in Africa.

Strategic and community conversations

We conduct the MMI Strategic Conversations Series, which facilitates conversations that impact the Financial Wellness of our nation, provides insight into the socio-economic challenges of the country and works to solve these needs. As part of the Series, conversations are grouped into Strategic Conversations and Community Development Conversations. Strategic Conversations usually address high-level national issues and are timed to leverage on national events such as the State of the Nation Address.

In February 2017, MMI Holdings hosted a Strategic Conversation under the theme “What do you think should be in the President’s State of the Nation Address?” Key stakeholders and decision-makers provided compelling insights into a number of issues of national importance. The debates that took place were encouraging, as the participants focused on finding common grounds through engagement and offering lasting solutions to our societal challenges. The key messages were the importance of changing our narrative as a country and recognising that it will take collective effort to get South Africa on the right path.

A Strategic Conversation was held in May, and the aim was to use this conversation to introduce an institutionalised/public/private dialogue onto the Pretoria calendar, and to encourage debate on critical national issues that are aligned to Financial Wellness. The current socio-economic climate has resulted in employee over-indebtedness, financial stress and health issues leading to lower productivity, which is witnessed through presenteeism and absenteeism. In the May strategic conversation we investigated the role of government, the private sector and civil society in raising the competitiveness of our workforce to fuel economic growth, create sustainable jobs and address the challenges of high income inequality and poverty. Pretoria, as the seat of government, houses all national government departments and key public sector decision makers, making them more accessible, and more likely to participate.

MMI’s Community Development Conversations are focused on making Financial Wellness more relevant to the needs of identified communities. The approach is more developmental in nature, and as such, Community Development Conversations lean towards engagements that impact the needs of communities in semi urban to rural areas, which tend to be more localised to community wellness rather than national issues. A Community Development Conversation was held in March 2017 in the Eastern Cape province, where the conversation focused on current programmes and interventions in place to counter youth unemployment and other challenges facing the youth of East London.

Stakeholder engagement (continued)

The Directors Event

MMI continues to be the main sponsor of The Directors Event. Pegged as South Africa's biggest board meeting, The Directors Event aims to create a platform where the crucial issues facing South Africa can be tackled by leaders across all sectors in our society, with national Financial Wellness as the ultimate goal that drives these discussions. In the years since its inception, The Directors Event has provided incisive views on the path our country is taking, and these discussions are becoming more pertinent given the challenging operating environment facing South Africa in 2017.

Protecting the economy, geopolitical uncertainty, and youth education and unemployment were the three key areas of discussion at this year's event. The delegates engaged honestly, and recognised that although there are no quick fixes, individuals and corporate citizens have an important role to play in placing South Africa on the path to growth and stability.

The event is attended by over 300 delegates in senior positions in their organisations. Although tickets are available on sale to members of the public, MMI Holdings also invites its clients, regulators, policy makers, civil society, labour representatives and other stakeholders to the event. It allows us to interact with these various stakeholders on issues that have an impact on business, service delivery and society, thereby contributing to charting a sustainable and inclusive future for South Africa.

Participating in the national development plan summit

Following the second successful NDP Vision2030 Summit endorsed by the National Planning Commission, MMI Holding's Corporate and Public Sector hosted the financial services breakaway session at the event on 21 and 22 June 2017 at Emperors Palace in Johannesburg.

The Vision2030 Summit provides a platform for members of the Presidency, key government dignitaries and private sector leaders to share insights, engage and discuss the vision for the NDP. It highlighted key aspects around Vision2030 and how key organisations and individuals can contribute to making it a reality. As the sponsor of a breakaway session, MMI organised the content and speakers to further the objectives of the NDP, while being aligned to our Financial Wellness purpose.

The breakaway session put productivity at the forefront of the debate. According to the MMI Effective Employee Index, South Africa loses more than 120 million days per year (or around 13 days per employee per year) in productive work time, with this lost time estimated at roughly R70 billion or 2% of GDP. That figure does not account for the increasing phenomenon of presenteeism, where employees are at work but not operating optimally.

As the sponsor, MMI Holding's Corporate and Public Sector shared learnings on how corporate South Africa can leverage key productivity drivers and discussed how to extend this to the national level in the context of the NDP, with public private partnerships driving growth.

Participation and involvement in industry bodies

Collaborating with industry and regulatory bodies is an important component of managing stakeholder relations, and helps ensure that MMI keeps abreast of developments that impact our business and sector. Examples of our interactions are detailed below.

The Association for Savings and Investment South Africa (ASISA)

MMI is a committed and active member of ASISA; MMI's CEO is a founding and current board member, and we currently have 80 employees participating on the various boards, standing committees and working groups. Through our membership in ASISA, MMI actively engages with financial services sector stakeholders, including the National Treasury, on key issues facing the sector, and also comments on and gives input on key legislation. Through the collective voice of ASISA members, we have made great strides in ensuring that the voice of business is heard and that we reach consensus on our response to challenges facing the financial sector and the country at large.

The South African Insurance Association (SAIA)

Guardrisk and MSTI are both active members of the association for short-term insurers. Guardrisk's CEO is a board and executive committee member and staff members of both businesses are members of various technical subcommittees and working groups. The SAIA is an important stakeholder in the South African economy and therefore plays a vital role in assisting to ensure the sustainability of the local economy.

Board of Health Funders

Metropolitan Health has been a member of the Board of Health Funders (BHF) for many years. Its CEO, Dr Ali Hamdulay, is the current non-executive chairman of the BHF board of directors. As a medical aid administrator, we play a critical role in contributing to and lobbying various industry bodies and stakeholders to advance the medical industry. We provide technical expertise to investigate industry issues related to benefit and risk management to ensure a sustainable and viable private healthcare funding industry.

Council for Medical Schemes

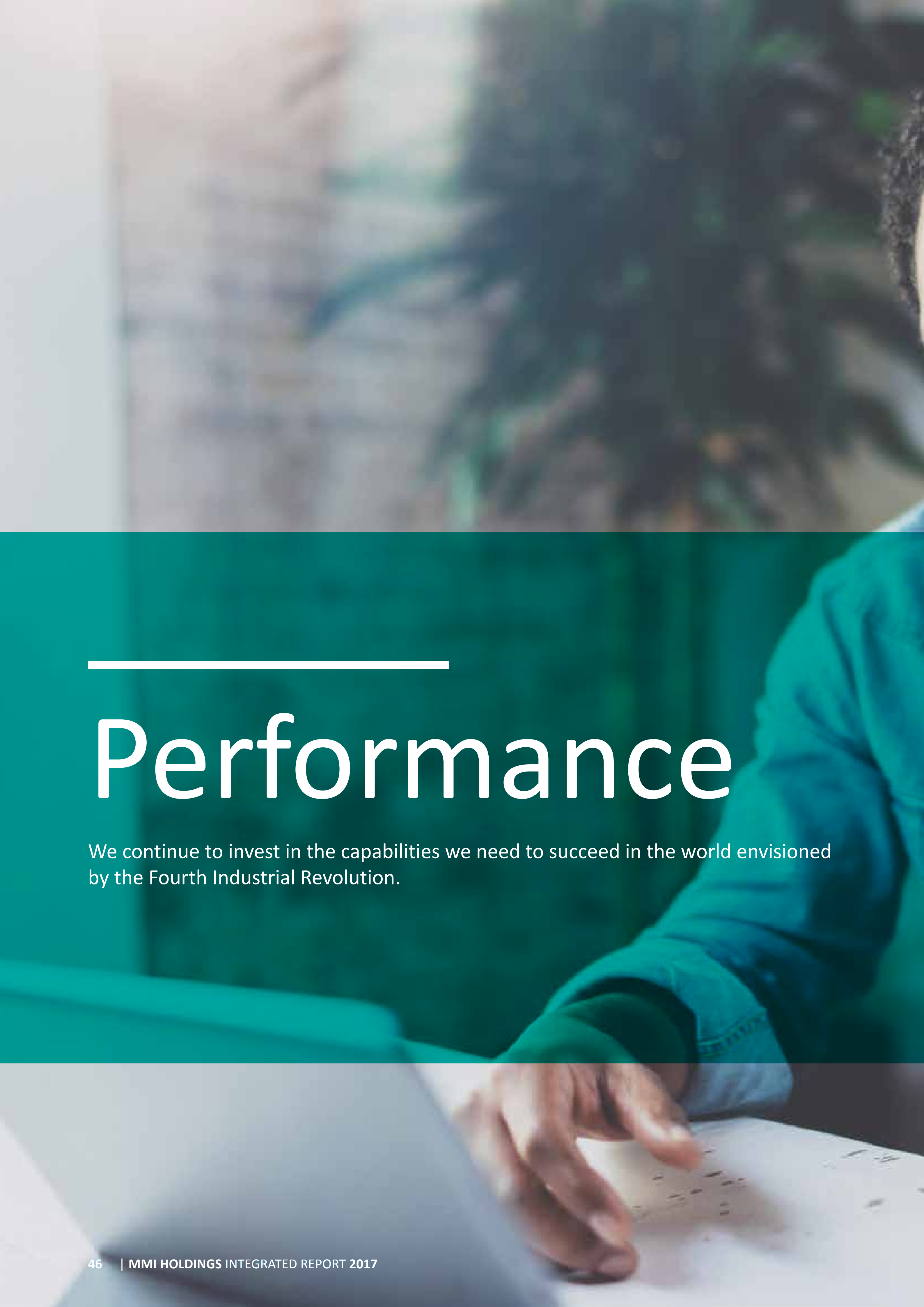
MMI contributed to the Prescribed Minimum Benefit (PMB) review process to highlight current challenges with the existing PMB framework. Among other recommendations, we proposed that a representative advisory body be constituted to coordinate the input of key work streams. MMI also participates in the task team mandated to review the PMB Code of Conduct.

Upcoming stakeholder activity

The last group-wide stakeholder mapping process was done in 2012, and since then a number of changes have been made to MMI's organisational structure and shifts seen in the external stakeholder environment. To remain responsive to the business needs of our clients and stakeholders, stakeholder relationship management will be embarking on a mapping process during F2018.

Additional information

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



Performance

We continue to invest in the capabilities we need to succeed in the world envisioned by the Fourth Industrial Revolution.

Group chief executive officer's overview

Nicolaas Kruger
Group chief executive officer

Although MMI had to deal with the challenges of the tough South African operating environment, we remain committed to our client-centric strategy and our Financial Wellness purpose.

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses. This Financial Wellness purpose remains relevant in the current tough economic environment. Slow economic growth, shrinking disposable income and rising unemployment characterised the operating environment in 2017, increasing the financial pressure on consumers.

Although MMI had to deal with the challenges of the tough South African operating environment, we remain committed to our client-centric strategy and our Financial Wellness purpose. The MMI management team acted decisively to implement key strategic focus areas, balancing the investment required for a sustainable long-term future with shorter term priorities to ensure MMI's core businesses continue to compete in South Africa. In the process we streamlined MMI's corporate portfolio, reducing our African footprint and increasing the focus on MMI's large existing businesses in South Africa.

We remain mindful of the exponential technology advances of the Fourth Industrial Revolution and continued to invest in the capabilities we need to succeed in the world envisioned by this revolution. Capabilities like data analytics, machine learning, design thinking, digital marketing and robotics will support our client-centric strategy and help us to build superior relationships with clients in a cost-effective manner.

OVERVIEW OF 2017

Environment and industry

2017 has been another challenging year for the financial services industry in South Africa. Political events impacted negatively on an already weak economy, and all key economic indicators in South Africa confirmed a picture of consumers who experienced more pressure on disposable income than in 2016. Business and consumer confidence indices were at historical low levels, fuelled by South Africa's sovereign credit downgrade. The negative environment inevitably had a commensurate impact on MMI.

Strategic focus areas

MMI has 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 MMI are aligned to the focus areas of Client Centricity, Growth and Excellence. During 2017, we made good progress to achieve the strategic objectives in respect of all three strategic focus areas.

Client Centricity

The successful execution of our strategic focus to understand and meet client needs was independently confimed by the latest South African Customer Satisfaction Index (SAcsi), which indicated that South African life insurance clients are the most satisfied with our Metropolitan brand, for the second year in a row. Metropolitan Retail aims to gain a deep understanding of the problems our clients face and then use new technologies to enable relevant solutions for clients, while protecting shareholder interests. For example, interventions that use data analytics shortened Metropolitan's claims turnaround times from 48 hours to as little as 10 minutes.

To create value for MMI clients, our Multiply Wellness and Rewards programme educates, engages, empowers and encourages members for doing everyday things that ensure a physically and financially healthy lifestyle. Multiply continued its growth path during 2017 and now has over 250 000 clients and created value through improved persistency, higher cross-product holdings and a reduction in claims.

During 2017 we further refined the value propositions for all our South African client segments. We again measured the financial wellness of South African citizens through the Momentum Financial Wellness Index (in partnership with UNISA). The adverse impact of South Africa's economic challenges on household finances was clear from the results of the Index and we will take account of these findings to enhance our client value propositions.

Growth

Our Health and Wellness joint venture with Aditya Birla in India was launched during November 2016 and we are very pleased with the progress made in the few months since the launch. Aditya Birla Health already received awards in respect of its product range and digital marketing campaigns, while total insured lives exceeded 200 000 by the end of the financial year. We also launched our micro-insurance JV with MTN in Uganda and Ghana during 2017 and we are gaining valuable insights.

Earlier in this overview I referred to the streamlining of MMI's corporate portfolio outside South Africa. We have decided to significantly scale down our presence in the United Kingdom, and we have announced our plan to exit a number of African countries to improve focus on remaining operations. Our efforts in this regard have enabled more focused investment in our large South African businesses, in the capabilities required for the Fourth Industrial Revolution and in attractive new strategic growth initiatives in South Africa.

One of the attractive opportunities we are pursuing is the joint venture between MMI and African Bank. This partnership includes three business lines, comprising lending, insurance business and transactional banking. The lending venture will make it possible for MMI to offer needs-based credit to our client base through various distribution channels and the insurance opportunity will enable African Bank to provide MMI insurance products to its client base through African Bank distribution channels. The transactional banking capabilities will further enable the MMI Financial Wellness client value proposition. The different components of the joint venture will be rolled out on a phased basis during the 2018 financial year.

In our existing South African businesses, we increased efforts to grow productive face-to-face channels for our Momentum Retail and Metropolitan Retail businesses, aiming to increase MMI's client base. Good results have been achieved in respect of growth in the membership of the Momentum Health open scheme and growing our Momentum Short-term Insurance client base, where cross-selling and our Multiply Wellness and Rewards programme have been very effective. We also continued to invest in alternative distribution channels to support our omni-channel strategy.

Excellence

A critical initiative within our Excellence strategic focus area is MMI's expense optimisation project. We are pleased that this project achieved its milestones and remains on track to achieve the 2019 target of R750 million in annual cost savings.

An important aspect of MMI's client-centric strategy is to have leading Financial Wellness building blocks. There was a particular focus on turning around Momentum Short-term Insurance, which consistently improved from a new business premium, expense and claims ratio perspective. Momentum Short-term Insurance is closely tracking its business plans and aims to achieve sustainable profitability by 2019.

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 2017 significant headway has been made in respect of strengthening our strategic enablers, to build IT systems fit-for-purpose for the Fourth Industrial Revolution, improve data analytics skills, vest a client-centric culture and increase innovation.

In line with trends towards mobile client engagement, we released a first version of a Momentum mobile application. Momentum Health and Short-term Insurance applications will be included into one holistic Momentum mobile application during the next year, aligned to our Financial Wellness ambition. We also implemented Webchat functionality on all the Multiply pages on the **www.momentum.co.za** website. Further systems development to prepare MMI for the Fourth Industrial Revolution is underway.

MMI's client-centric culture, the MMI Way was launched at a country-wide MMI executive (exco) roadshow. Following the MMI exco roadshow, we successfully completed an industrial theatre roadshow throughout the country to practically illustrate the MMI Way to all staff and internalise how to change their behaviours to align with the MMI Way. Our staff reacted very positively to the two roadshows and we will implement further initiatives to fully vest the behaviours and values of our culture.

Our innovation partnership with the United Kingdom venture capital firm Anthemis progressed well. We have evaluated a large number of potential Fintech and Insuretech start-ups in the Financial Wellness space and the first investments have been made. In South Africa our partnership with venture capital firm 4Di Capital has also made good progress and investments have been made on a similar basis. We continuously connect relevant start-ups and new technologies to the existing business of MMI, aiming to take advantage of their skills and capabilities to advance our strategy.

We continued to pursue internal innovation on an agile basis during the year, using design thinking and lean start-up methodologies to advance internal opportunities in a focused manner.

Financial performance

The results of MMI for the financial year ended 30 June 2017 were impacted by the tough economic environment and the weak investment markets. Core headline earnings remained flat relative to the prior year. New business sales reduced by 6%, while new business margins reduced from 1.6% to 1.3%. We continued to invest in key strategic initiatives and expense management was very satisfactory. MMI's capital base remains adequate.

For further details on the financial performance, please refer to the group finance director's report on page 52.

Executive team

The MMI executive committee is a diverse and energised team and we are confident of our ability to lead MMI towards our Financial Wellness purpose.

MMI's executive committee membership changed during 2017. The chief executive (CE) Momentum Retail business (Etienne de Waal), MMI's chief operating officer (Danie Botes) and the group executive of brand (Vuyo Lee) resigned during the year. I would like to thank Etienne, Danie and Vuyo for the important contributions they have made to MMI on multiple fronts and wish them all the best.

Three new executives joined the MMI exco team, Linda Mthenjane as group executive of Human Capital, Ashlene van der Colff as head of group operations and Risto Ketola as chief financial officer. Our group finance director, Mary Vilakazi has accepted the responsibility of deputy CEO and Khanyi Nzukuma (previously CE of Metropolitan Retail) has accepted the responsibility to become CE of Momentum Retail.

Transformation

We remain committed to creating sustainable transformation in the South African economy and have maintained our Level 2 Contributor status. The new B-BBEE certificate was issued during May 2017 and I am very pleased with the score of 93.37 (125% B-BBEE recognition level). Transformation remains a critical building block to achieve our objective of enhancing Financial Wellness for all.

Looking ahead

The current challenging environment for both consumers and businesses is likely to prevail for some time, and technology advances will continue to change the business world. MMI's client-centric strategy and investment in capabilities to succeed in the new world will position us to compete in the future. In the short term, MMI and our industry peers will remain subject to a tough and uncertain environment. Our strategic choices to streamline MMI's corporate portfolio and focus on strengthening the large existing businesses in South Africa will help us to successfully navigate through this short-term cycle successfully, while setting MMI up for future success.

Thanks

I would like to thank everyone involved with MMI for their contributions during the year. We appreciate the ongoing strategic guidance provided by the MMI board. We also appreciate the ongoing commitment and resilience of our executive management team and our MMI employees. I would also like to thank our shareholders and clients for their continued support. We look forward to journey with all of you on the way to a new world and Financial Wellness.

NICOLAAS KRUGER
Group chief executive officer

Group finance director's report

The group continued to experience tough operating conditions over the past year that manifested in lower than expected earnings. Despite the challenging conditions the group was able to secure solid new business flows albeit at lower margins, while keeping a strong control over expense growth.

Mary Vilakazi

Deputy chief executive officer and group finance director

Introduction

This review provides a high-level overview of the group results. Additional financial disclosure can be found in the annual financial statements and additional operating performance information can be found in the segmental reports.

The results of MMI for the financial year ended 30 June 2017 reflect a difficult operating environment with the main financial metrics being under pressure. The following themes impacted on the financial results of the group:

- The balance sheet of the group is highly geared towards equity markets. Muted equity market growth over the past three years have impacted the level of asset based fees and discretionary margin releases, resulting in flat earnings year-on-year.
- Lower than expected underwriting profits remain a feature in the corporate group disability business. The underwriting results of the rest of the life insurance book recovered well from the previous financial year.
- The group's International short-term insurance and health businesses continued to face headwinds, resulting in decisions taken to exit numerous businesses outside of South Africa to preserve the group's capital resources going forward.
- The return on embedded value (ROEV) was impacted by negative investment variances resulting from weak market returns, lower than expected value of new business and the write down of asset valuations following the decisions to exit certain business lines and countries.
- Reasonable new business volumes given the tough economic environment but with new business margins under pressure.

The group's various strategic initiatives are on track and are discussed in the CEO report.

Group performance scorecard

MMI assesses its operational performance against a set of key performance indicators that are annually reviewed and approved by the group's Remuneration Committee. The set of indicators include 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. The group set stretching targets for F2017 in line with the aspirational ROEV targets. For the financial year ended 30 June 2017, the following set of short-term deliverables applied to the group as a whole:

Performance scorecard 2017

	Weight	F2017 target	Actual	Achieved
Return on embedded value[1]	20%	**12.2%**	8.9%	↓
Core headline earnings	20%	**13% growth**	0%	↓
Value of new business	15%	**R801m**	R547m	↓
Optimisation and expense savings programme	10%	**R200m**	R219m	↑
Strategic initiatives	35%	**Exco assessment**	3.4 (max 5.0)	↑

[1] For the short term performance scorecard ROEV is measured excluding the impact of investment variances

The above scorecard 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 a muted ROEV of 8.9% (excluding investment variances) well below the group's target ROEV of Risk Free + 3% (12.2% based on 10-year RFR at start of year). ROEV inclusive of investment variances was 4.7% for the year.

The group saw a decline in overall new business growth of 6% on a present value of premiums (PVP) basis and 3% on an annual premium equivalent (APE) basis. The value of new business (VNB) declined sharply by 23% as a result of lower volumes as well as lower margins at product level.

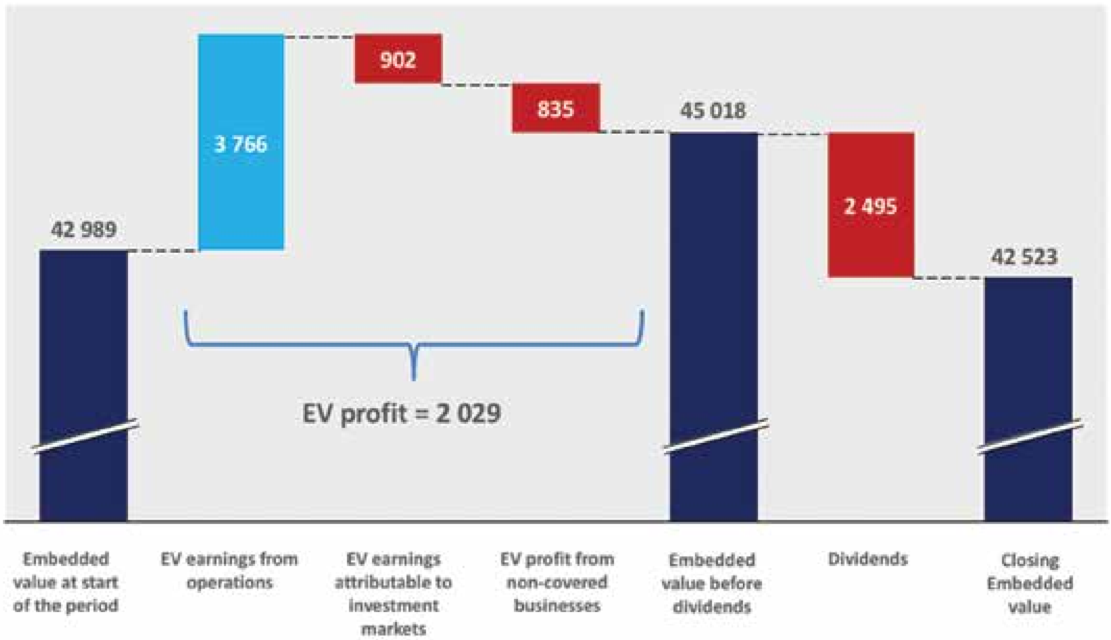
The flat core headline earnings were satisfactory in difficult operating circumstances. Improved group risk results were offset by an increase in lapse rates in the Metropolitan Retail market as well as the ongoing impact of flat equity markets on our asset based fees and discretionary margin releases.

Expense management was good with the group achieving R219 million in savings against a target of R200 million for the 2017 financial year. Note that these savings are part of the cost efficiency program to take out R750 million of operating expenses by the 2019 financial year.

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

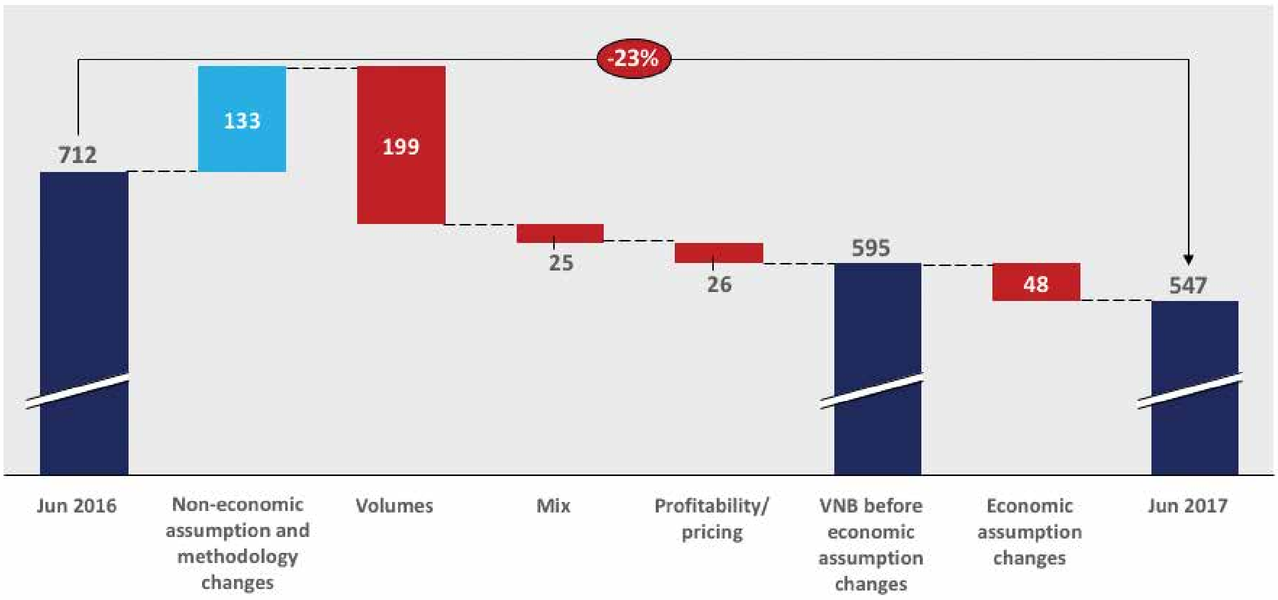


The diluted embedded value of the MMI group amounts to R42 523 million (R26.51 per share) as at 30 June 2017. Adding back the payment of dividends and other capital movements (R2 495 million) the overall return on embedded value (ROEV) amounts to R2 029 million, an annualised return of 4.7% on the opening embedded value. This is below the targeted return on embedded value of 12.2% for the year to 30 June 2017.

Significant items impacting negatively on the ROEV include flat equity markets leading to negative investment variances. The impact of weak investment markets is visible in the ROEV contributions from both our life business and our asset management operations. In addition poor underwriting results in the corporate disability and International short-term and life insurance businesses continued. We continue to increase premium rates on our corporate disability business in order to return to acceptable underwriting margins and we have initiated exits from some of the underperforming International operations. We thus expect underwriting results to improve in F2018.

Value of new business (VNB)

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



The overall value of new business (VNB) for the 12 months to June 2017 amounts to R547m at a PVP margin of 1.3%, compared with a margin of 1.6% for the prior year. The decline in VNB from the prior year comparative is largely attributable to the negative impact of the decrease in sales volumes (R199m impact).

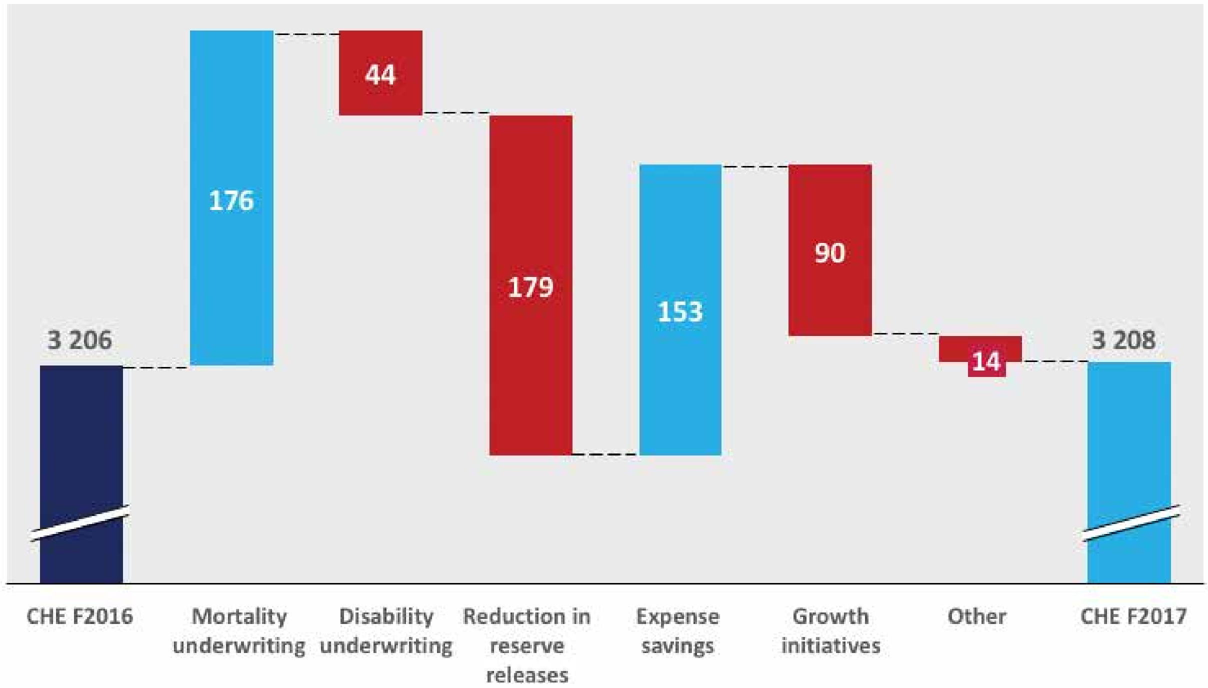
Value of new business per segment

	June 2017 Rm	June 2016 Rm	1 year change %	PVP margin %
Momentum Retail	228	251	(9)	1.0
Metropolitan Retail	178	191	(7)	3.4
Corporate and Public Sector	68	199	(66)	0.6
International	73	71	3	2.9
Total	**547**	**712**	**(23)**	
New business margin (PVP)	1.3%	1.6%		

The Momentum Retail VNB deteriorated due to the reduction in the more profitable business during the current financial year. This is particularly the case on single premium products where the sales mix migrated to lower margin solutions. Metropolitan Retail's VNB decreased largely due to acquisition costs increasing faster than sales volumes. Market conditions remains highly competitive in the Corporate and Public Sector market and our sales channels experienced some disruptions during the current financial year. This resulted in significant pressure on sales volumes for traditional large corporate business and a weak VNB number. The International VNB was positively impacted by a slight increase in sales in Namibia and in Botswana.

Contribution to diluted core headline earnings

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



The core headline earnings for the group for the current year was supported by better overall underwriting results, especially on mortality and non-life risks. The lacklustre investment market growth comes through core earnings mainly in the 'reduction in reserve releases' item. Excellent expense management contributed positively to core earnings over the year. Business exits also contributed positively to the overall core headline earnings.

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

MMI group core headline earnings

	12 months to 30 June 2017 Rm	12 months to 30 June 2016 Rm	% Change
Momentum Retail	**1 271**	1 493	(15)
Metropolitan Retail	**660**	700	(6)
Corporate and Public Sector	**835**	680	23
International	**(166)**	(156)	(6)
Operating Segments	**2 600**	**2 717**	**(4)**
Shareholder Capital	**608**	489	24
Total MMI	**3 208**	**3 206**	**0**

Momentum Retail's core headline earnings declined by 15% compared with the prior year largely due to the impact of weak investment market returns on discretionary reserve releases, as well as the impact of higher discounts offered on Myriad (life insurance product) as a result of clients migrating to higher Multiply status levels. Losses from Momentum Short-term Insurance declined during the year in line with the business plan to reach break-even within the next two years.

Metropolitan Retail's core headline earnings decreased by 6%. This is mainly due to an increase in new business strain as well as worse than expected lapse experience, especially during the last quarter. Increased new business strain reflects that acquisition costs increased faster than sales volumes during the year. The higher growth in acquisition costs is explained by a greater number of new advisers in the workforce (whose productivity is initially weak relative to their cost impact) and poor performance from our telesales channels.

Group finance director's report (continued)

The Corporate and Public Sector core headline earnings, which increased by 23% compared to the prior year, was positively impacted by an improvement in group risk experience profits in the current financial year, and the positive impact of efficiency savings in the Health business. Disability underwriting profits remains under pressure given the poor economic climate and a very competitive market. The segment continues to monitor this closely, increasing rates where appropriate. Premiums have also started to harden over the past 12 months. Guardrisk also contributed positively to the pleasing increase in earnings.

MMI International's decrease in core headline earnings is largely due to the worse than expected short-term and life insurance results, especially in Kenya. The group continues with its plans to improve focus by exiting certain loss-making business lines and by fully disposing of some operations.

The Shareholder Capital core headline earnings increased by 24% as a result of better investment performance on shareholder capital and lower shareholder expenses.

Capital management

The table below sets out the group's capital position at 30 June 2017:

	Rbn
Net asset value as per embedded value statement	16.3
Qualifying debt	3.6
Less: net asset value of strategic subsidiaries	(3.6)
Less: required capital	(10.1)
Capital before deployment	6.2
Deployed	(2.5)
Final dividend	(1.5)
Committed capital – strategic initiatives	(1.0)
Capital buffer after deployment	3.7

At 30 June 2017, the solvency position of MMI Holdings remained satisfactory with a capital buffer of R3.7bn after allowing for deployment for strategic initiatives. The above position is on the current Statutory Valuation Method (SVM) basis, but group Balance Sheet Management continued with the focus on preparing for Solvency Assesment and Management (SAM) implementation during the year. 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. The target range for the solo insurance entity (Momentum Group Ltd) will be higher than for MMI Holdings.

Dividend

Despite the ongoing earnings pressure experienced during the year, the current capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity and the decision to exit certain loss-making businesses, supports MMI's ability to declare an unchanged final dividend compared to the prior year. The final dividend of 92 cents per share results in a total dividend for the year of 157 cents per share. The group plans to revert to its target dividend cover ratio of 1.5 to 1.7 times core headline earnings in due course.

The table below shows the groups dividend declarations over the last three years.

Dividend per share (cents)

	2017	2016	2015
Interim ordinary dividend	65	65	63
Final ordinary dividend	92	92	92
Total ordinary dividend	157	157	155

Conclusion

The group continued to experience difficult operating conditions over the past year that manifested in lower than expected earnings. Despite the challenging conditions the group was able to secure solid new business flows albeit at lower margins, while keeping a strong control over expense growth.

The group has made good progress on some key growth initiatives. The Indian health insurance joint venture with Aditya Birla is one deserving of a special mention. Early top line growth has exceeded business plans and we remain excited about this opportunity. We are also optimistic about the prospects of our lending and insurance joint venture with African Bank that will become operational during F2018.

However, tough operating conditions are likely to persist for the more mature domestic life insurance operations and revenue is likely to remain under pressure in the near term. Despite the modest revenue outlook we plan to invest selectively in expanding our distribution presence in the SA retail market and we also continue to invest in client engagement solutions to ensure that we have differentiated client solutions. We believe that these investments will enable us to capture increased share of the market and to position us to generate attractive returns once the economic conditions improve.

MARY VILAKAZI
Deputy chief executive officer and 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 effectively with uncertainty and its associated risks and opportunities, 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 risk management 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, which 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, who 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, increased 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.

Governance

MMI is committed to the highest standards of corporate practice and conduct and strives to implement the best processes and principles of good corporate governance to create value for all stakeholders.

Chairman's letter to shareholders

MMI remains committed to inclusive value creation for all citizens and will continue to contribute to collaborative efforts between government, business and labour.

JJ Njeke
Chairman

Dear Shareholder

During the past year our country faced many challenges. South Africa's fiscal and external funding vulnerabilities became more pronounced when the country's credit rating was downgraded to sub-investment status and economic growth has essentially come to a standstill and is expected to remain at low levels. Consumer and business confidence is also alarmingly low and the disposable income of consumers remains under pressure in an environment with high levels of unemployment.

We acknowledge South Africa's current fragile state, but remain optimistic about our country's long-term future prospects. Although the compounding challenges in the operating environment had a negative impact on MMI's business performance, we have decided to increase the strategic focus on our core businesses in South Africa. I have confidence in MMI's board and executive team to adapt to the challenging environment and to successfully steer MMI through a difficult time in the history of our country and to continue creating value for our stakeholders over time.

Commitment to South Africa

MMI remains committed to inclusive value creation for all citizens and will continue to contribute to collaborative efforts between government, business and labour.

In 2017, MMI continued its sponsorship of The Directors Event, a forum where the critical issues facing South Africa were discussed by leaders across all sectors in our society. These discussions are especially pertinent given the dynamic operating environment in South Africa in 2017.

Following the second successful NDP Vision2030 Summit endorsed by the National Planning Commission, MMI Holdings hosted the financial services breakaway session of the event in June 2017. MMI endorses the NDP as a blueprint to guide long-term planning and achieve economic prosperity for our country.

In addition to our efforts in South Africa, I am pleased that we are also involved in broader initiatives on the African continent and in 2015, MMI joined the World Economic Forum (WEF) as a Regional Associate for Africa. MMI is also involved with the Africa Skills Initiative of WEF, which aims to close skills gaps in Africa and engage the private and public sectors in broader, long-term reform of education and skills systems to prepare for the future of jobs.

Beyond Financial Wellness

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses. This purpose extends beyond creating value for our clients, but also for the communities where they live and where we operate. MMI's corporate social investment has therefore been 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 have to date invested in projects that improve the social and financial circumstances of the communities in which we operate, focusing specifically on education, health, disability and sports development. Given the particular challenges facing South Africa, we will in future shift our focus to supporting the youth in their quest to become employable, financially well and active citizens of the country.

MMI's strategy

MMI's clients are core to our existence as a financial services business. During the past year we continued to implement our client-centric strategy. This integrated report provides you with an overview of the progress we have made to achieve MMI's vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.

MMI started rebalancing its corporate portfolio in 2017 to increase investment in our large South African businesses and in the capabilities required for the new world of the Fourth Industrial Revolution. Part of the rebalancing exercise required scaling back MMI's footprint in the rest of Africa. We remain committed to the Health and Wellness business we recently launched in India.

MMI board

During the year Johan Burger retired from the MMI board. Johan was our deputy chairman and I would like to thank him for the exceptionally valuable role he played on our board over many years. Louis von Zeuner took over as deputy chairman and is also making an equally valuable contribution.

Prospects

We expect the operating environment to remain tough in the short to medium term with consumers remaining under pressure whilst technology advances will continue to disrupt the industry. I believe MMI's resolve to gain an in-depth understanding of clients' unique needs and offering relevant Financial Wellness solutions (appropriately enabled by technology) are very relevant for MMI's current state of development and the challenges faced by our country. I look forward to the further implementation of solutions that 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, once again thank you for the opportunity to enhance your Financial Wellness. To shareholders, we remain grateful that you have trusted us with your investments, and to the MMI board, your guidance continues to be invaluable. To MMI's executive management and employees, I value your dedication 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 (58)
Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax
Appointed to board: 2010

Louis von Zeuner (56)
Deputy chairman
Non-executive, independent
BEcon
Appointed to board: 2014

Nicolaas Kruger (49)
Group chief executive officer
Executive
BCom, FFA, FASSA, AMP (Oxford)
Appointed to board: 2010

Mary Vilakazi (39)
Deputy chief executive officer and group finance director
Executive
BCom (Hons), HDip Auditing, CA(SA)
Appointed to board: 1 July 2015

Peter Cooper (61)
Non-executive, independent
CA(SA), BCom (Hons), HDip Tax Law
Appointed to board: 2015

Fatima Jakoet (56)
Non-executive, independent
BSc, CTA, CA(SA)
Appointed to board: 2010

Prof. Stephen Jurisich (52)
Non-executive, independent
BSc (Hons), FASSA, FFA
Appointed to board: 2016

Niel Krige (68)
Non-executive, independent
MCom, FIA (London), AMP (Harvard)
Appointed to board: 2011

Jabu Moleketi (60)
Non-executive, independent
AMP (Harvard), MSc in financial economics (University of London), postgraduate diploma in economic principles (University of London)
Appointed to board: 2010

Syd Muller (68)
Non-executive, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)
Appointed to board: 2010

Vuyisa Nkonyeni (47)
Non-executive, non-independent
BSc (Hons), CA(SA)
Appointed to board: 2011

Khehla Shubane (61)
Non-executive, independent
BA (Hons), MBA
Appointed to board: 2010

Frans Truter (61)
Non-executive, independent
BCom (Hons), CA(SA), AMP (Oxford)
Appointed to board: 2010

Ben van der Ross (70)
Non-executive, independent
Dip Law (UCT)
Appointed to board: 2010

Johan van Reenen (62)
Non-executive, independent
BSc (Hons), MBA
Appointed to board: 2010

Voyt Krzychylkiewicz (37)
Non-executive, non-independent (alternate to Peter Cooper)
BCom (Hons) Accounting, CA(SA), CFA Charterholder
Appointed to board: 2016

Maliga Chetty (47)
Company secretary
BA, BProc, LLM, CIS
Appointed: 2013

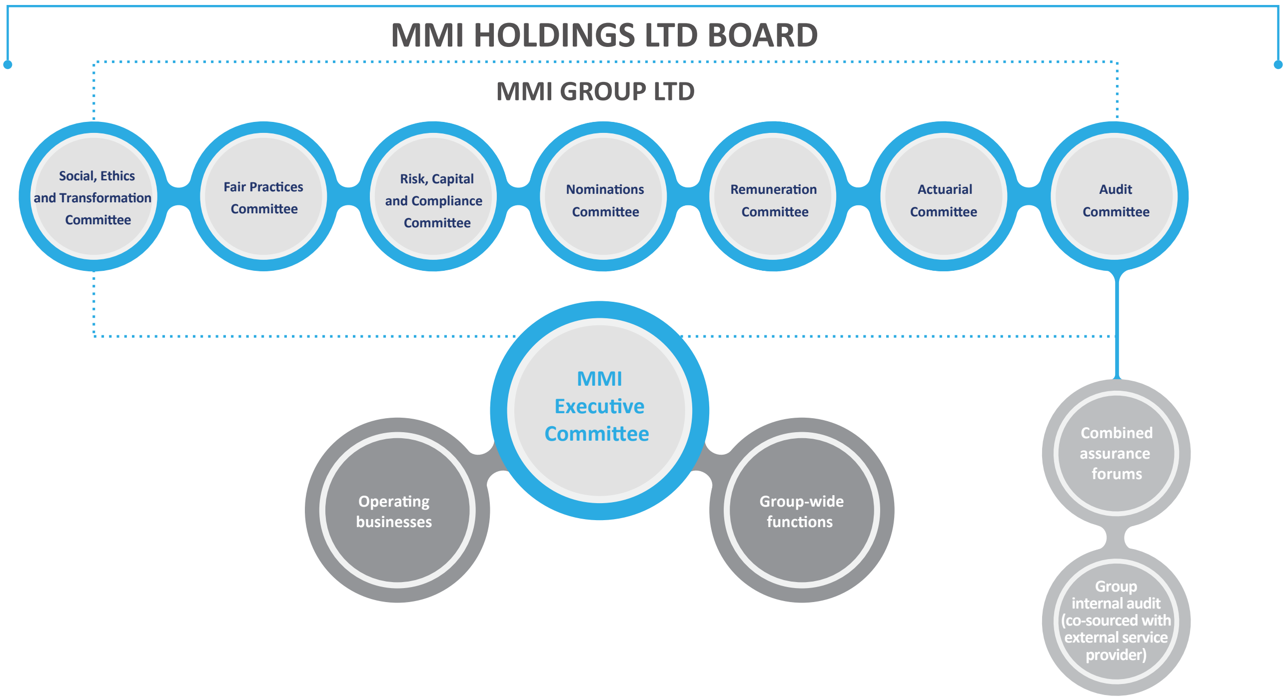
For abbreviated curricula vitae of directors, refer to the MMI website **www.mmiholdings.com**.

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 2017.

Corporate governance report

GROUP GOVERNANCE STRUCTURE



Introduction

The MMI board, representing the MMI group of companies, is committed to the highest standards of corporate practice and conduct, as defined in the King IV Report on Corporate Governance™ (hereafter referred to as King IV). The group strives and makes all reasonable endeavours to implement the best processes and principles of good corporate governance to assist its directors in discharging their duties and responsibilities, which includes the delivery of excellent service to all stakeholders.

Appropriate best practice is adopted and monitored in all the countries where MMI operates.

Governance of risk

MMI recognises that clear accountability is fundamental to effective 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 coordinates the activities of the assurance providers, whose functions include risk management, compliance, actuarial, internal audit and external audit.

Assessment of King principles

In the past, MMI undertook regular assessments on the application and implementation of King III. Post the coming into effect of King IV during April 2017, MMI conducted and considered on its application and adherence to the seventeen King IV principles. The outcome of the assessment reveals that MMI's governance processes are well entrenched and that the group applies and complies with all the principles of King IV. MMI will, going forward, make every endeavour to implement the King IV Recommended Practices as far as practically possible for its business.

MMI's report on the application and disclosure of the seventeen King IV principles is available on the MMI website **www.mmiholdings.com**.

Role of the board

The MMI board is the custodian of the group's corporate governance, it acts in the best interests of MMI and its stakeholders at all times, and it takes ultimate responsibility for MMI and the group of companies (generally). 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 that set 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 group governance structure (as shown above). 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 as required. The MMI board approves the delegated responsibility and powers, limits and authorities applicable to each board committee.

Composition of the board

The chairman of the board is independent and free from any conflict of interest since appointment. The strategic operational role of the CEO is separate from that of the chairman of the board.

The board of directors consists of an appropriate mix of individuals that ensures an adequate spread and level of knowledge, skills, expertise, diversity and independence with division of responsibilities and accountability, as outlined in the board charter.

Retirement of director

Mr B van der Ross was appointed as a member of the MMI board of directors of the company with effect from 1 December 2010. In accordance with the Companies Act, 71 of 2008 as amended (Companies Act) and the Memorandum of Incorporation (MOI), Mr van der Ross, having reached the age of 70 (seventy) years, will retire as a director on the MMI board with effect from the date of the annual general meeting (AGM), being 24 November 2017.

Attendance at board meetings from 1 July 2016 to 30 June 2017

	Holdings board
Meetings held	**4**
Members	**Meetings attended**
JJ Njeke (chairperson)[1]	4
Louis von Zeuner (deputy chairperson)[2]	4
Nicolaas Kruger (group CEO)	4
Mary Vilakazi (group deputy CEO)	4
Peter Cooper	4
Fatima Jakoet	4
Stephen Jurisich[3]	4
Niel Krige	4
Jabu Moleketi	2
Syd Muller	4
Vuyisa Nkonyeni	4
Khehla Shubane	4
Frans Truter	4
Ben van der Ross	3
Johan van Reenen	4
Voyt Krzychylkiewicz[4]	4

[1] *Chairperson*
[2] *Appointed deputy chairperson on 1 December 2016*
[3] *Appointed on 1 October 2016*
[4] *Alternate to Peter Cooper*

Corporate governance report (continued)

Members of the MMI Holdings Ltd board and committees as at 30 June 2017

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

[1] Chairperson
[2] Appointed deputy chairperson on 1 December 2016
[3] Appointed on 1 October 2016
[4] Alternate to Peter Cooper
[5] Consultant – appointed on 1 March 2017

Directors' independence

The board has considered the King IV recommendations on the independence of directors, as well as the provisions of the JSE Listings Requirements, and the individual status of the directors are recorded on pages 64 and 65 of this integrated report.

The company applies the governance practice that the board should comprise a majority of non-executive directors, of which a majority are independent.

Appointment and re-election of directors

The Nominations Committee is tasked with the responsibility to consider 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 (MOI), the Companies Act and other relevant prescriptions or requirements. The MMI MOI is available on request from the company.

The Nominations Committee also considers the fit and proper status of prospective directors and regularly reviews the fit and proper status of the appointed directors on the board.

INTRODUCTION
ABOUT US
PERFORMANCE
GOVERNANCE
REMUNERATION
FINANCIAL STATEMENTS

Corporate governance report (continued)

BOARD COMMITTEES

Social, Ethics and Transformation Committee

The MMI Social, Ethics and Transformation Committee (SETC) is mandated and authorised by the board of directors to fulfil its monitoring and evaluation roles. In doing this, the SETC 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.

Meetings held in 2016/2017	**3**
Members	**Meetings attended**
Syd Muller (chairman)	3
Nicolaas Kruger	2
Jabu Moleketi	3
Khehla Shubane	3
Ben van der Ross	2

Summary of key strategic initiatives in 2017

- Monitoring of MMI's broad-based black economic empowerment (B-BBEE) contributor status, in particular the more stringent targets under skills development, preferential procurement, enterprise and supplier development, as well as the introduction of the Black Industrialists Fund in terms of equity equivalents and ownership top up.
- Monitoring progress towards the achievement of the group's employment equity (EE) plan.
- Monitoring the promotion of gender diversity at the MMI Holdings board level and the MMI voluntary target setting of 21% female representation on the MMI Holdings board.
- Monitoring the impact of the new upcoming Preferential Procurement Policy Framework Act (PPPFA) on MMI.
- Progress of the group's sustainability plans, including the reduction of its carbon footprint.
- Monitoring the impact of corporate social investment (CSI) initiatives in targeted communities and beneficiaries.
- Ensuring that company procedures are ethical and in line with the legislative requirements for risk, compliance and Treating Customers Fairly (TCF).

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.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The SETC has confirmed its support of the revised group transformation strategy, and the various initiatives in support of the implementation of the strategy. Progress towards attaining the strategic goals and objectives is monitored on a periodic basis, and the SETC remains confident that the group will achieve its various targets.

At MMI, we consider B-BBEE and transformation as essential in achieving MMI's vision of being the preferred lifetime Financial Wellness partner with a reputation for innovation and trustworthiness. B-BBEE underpins our purpose to enhance Financial Wellness in a country that continues to grapple with inequality, inadequate access to financial services and lack of financial literacy, among other issues. MMI is guided by the Financial Sector Code (FSC) in delivering its B-BBEE and transformation objectives. MMI has maintained a Level 2 contributor status under the current FSC.

Sustainability governance

The head of sustainability reports to the group chief financial officer.

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 of 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 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 (FSB) in their TCF initiative. The FPC also functions as the Discretionary Participation Committee of MMI's life companies, ensuring compliance with and the monitoring of any changes to the principles and practices of financial management (PPFM).

Meetings held in 2016/2017	**3**
Members	**Meetings attended**
Ben van der Ross (chairman)	3
Stephen Jurisich	3
Nicolaas Kruger	2
George Marx*	3
Khehla Shubane	3

* Independent committee member.

Summary of key strategic initiatives in 2017

- Monitored the MMI Client Experience Measure Survey.
- Approved the PPFM compliance report for discretionary participation business.
- In light of the FSB's focus on market conduct, the FPC considered alignment such as a change of focus and/or name of the FPC, internal changes required within MMI, changes in certain terminology used in the group to amplify the focus on market conduct, and the move to TCF outcomes.
- Monitored improvement of client satisfaction within MMI.
- Monitored the Momentum Complaints Dashboard.
- Introduction to the MMI Outcomes-based Investment philosophy.
- Assessed Capital Protector Whole Life reviews.
- Assessed updates on the MMI group PPFM reports.
- Formed an Outcomes-based solutions OBS sub-committee for the OBS Transition Programme, with updates presented to the FPC each quarter.
- Reviewed Credit Life pricing after new regulations from a fairness position.
- Reviewed TCF implementation and provided ongoing monitoring of the transition to market conduct, which will include TCF.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Risk, Capital and Compliance Committee

This Committee is responsible for assisting the board in discharging its responsibility for risk, capital and compliance management within the MMI group.

Meetings held in 2016/2017	4
Members	**Meetings attended**
Louis von Zeuner (chairman)	4
Peter Cooper	4
Fatima Jakoet	4
Nicolaas Kruger	4
Vuyisa Nkonyeni	3
Frans Truter	4
Johan van Reenen	4

Summary of key strategic initiatives in 2017

- Reviewed and challenged the holistic risk profile (shareholder and policyholder risks) across MMI and the supporting risk management processes.
- Oversaw implementation of new risk appetite metrics and the Own Risk and Solvency Assessment (ORSA) process.
- Monitored the key focus areas reported on in the Risk report compared to the Critical Focus Areas included in the report to the MMI board.
- Oversaw IT governance in MMI.
- Approved the revised Stress Testing Framework.
- Monitored mergers and acquisitions transactions.
- Monitored MMI's risk appetite and capital management.
- Reviewed any risks pertaining to dividend sustainability for the foreseeable future.
- Assessed the 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.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Nominations Committee

This Committee makes recommendations to the board on various issues, such as the appointment of non-executive directors and 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.

Meetings held in 2016/2017	4
Members	**Meetings attended**
JJ Njeke (chairman)	4
Peter Cooper	3
Frans Truter	4
Louis von Zeuner	4

Summary of key strategic initiatives in 2017

- Reviewed MMI's F2016 management philosophy and practice, together with succession planning at an executive committee (exco) level.
- Reviewed professional indemnity and directors' and officers' liability.
- Oversaw the MMI annual board and committee assessments, including member self-assessments.
- Considered the fit and proper status of responsible persons within MMI, and various governance-related matters.
- Analysed various in-country governance matters.
- Considered changes to the composition of the board and board committees, as well as prospective candidates on the MMI Holdings board. When reviewing and determining the optimal composition of boards, the Committee considers all aspects of diversity including race and gender. The Committee also ensures that the board composition should be appropriately balanced.

- Monitoring the board diversity policy adopted by MMI, which covers both target setting for gender representation on MMI boards, as well as diversity (including 'race' diversity). The voluntary target that has been set for female representation on the MMI board is 21% taking into account legislation such as the JSE Listings Requirements, B-BBEE Act and BEE Charters, on the matter. Voluntary target-setting for race diversity will be reviewed in future.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Remuneration Committee

The Remuneration Committee has an independent role to oversee the remuneration process and consider and approve remuneration-related issues.

Meetings held in 2016/2017	3
Members	**Meetings attended**
Peter Cooper (chairman)	3
Jabu Moleketi	1
Ben van der Ross	3
Johan van Reenen	3

Summary of key strategic initiatives in 2017

- Ensured that MMI adhered to fair and responsible remuneration across the company, specifically in terms of annual increase and bonus payments.
- In line with good governance principles, introduced Minimum Shareholding Requirements for MMI executive members.
- Based on market research and benchmarks, ongoing oversight of the final stages of implementing pre-vesting forfeiture of short-term and long-term incentives for executives.
- Debated the implications of King IV requirements, with the objective to implement the required changes as soon as practically possible.
- Ongoing benchmarking of non-executive directors' fees to ensure they remain market related.
- Reviewed the MMI Short-term Incentive Scheme Balanced Scorecard for F2017, and the formulation and approval of the F2018 Scorecard.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Please see our remuneration report starting on page 86 for further detail.

Actuarial Committee

The role of the Actuarial Committee is to act as a sounding board to the board and other board committees with regards to independent actuarial and related technical matters, to assist the board in discharging its fiduciary duties to policyholders and shareholders, and to assist the head of the actuarial function in fulfilling his professional and statutory duties.

In order to accomplish the above the committee performs the following functions:

- Provides oversight over the integrity and correctness of actuarial statements and reporting, including the overall methodology and assumptions used to value the assets and liabilities underlying the statutory and published valuation results, and embedded value results.
- Considers the projected valuation results over the business planning period, as part of the Own Risk and Solvency Assessment (ORSA) process.
- Ensures that details of the design features and pricing of new products and product revisions are regularly reviewed.
- Reports and accounts to the MMI Holdings board, at least quarterly.

Meetings held in 2016/2017	4
Members	**Meetings attended**
Stephen Jurisich (chairman)	4
Nicolaas Kruger	3
Kavi Pather*	1
David Park**	4
Marli Venter**	4
Mary Vilakazi	4

* Consultant.

** Independent committee member.

Summary of key strategic initiatives in 2017

During the year the committee dealt with, inter alia, the following:

- Considered the half-year and annual statutory and published valuation results, and embedded value results.
- Considered the SAM valuation results, as well as the projected balance sheet, risk appetite and economic capital results used in the ORSA process.
- Considered other matters, such as the proposed bonus declarations, Insurance Risk Annual Report and proposed dividend declarations.
- Expressed to the board it's satisfaction with the performance of the head of the actuarial function.
- Monitored how the changing regulatory landscape would impact on valuation methodologies.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Audit Committee

The Audit Committee is an independent statutory committee appointed by the shareholders. In addition to its statutory responsibilities, the Audit Committee deals with duties that are delegated to it by the MMI board.

Meetings held in 2016/2017	6
Members	**Meetings attended**
Frans Truter (chairman)	6
Fatima Jakoet	6
Syd Muller	6
Louis von Zeuner	6

Summary of key strategic initiatives in 2017

- Approved the published MMI Holdings financial results.
- Reviewed and approved quarterly trading updates communicated to the market.
- Reviewed and approved the integrated report.
- Approved the risk-based internal audit plan for the financial year and quarterly internal audit feedback.
- Monitored the internal audit co-source agreement.
- Monitored the activity of the Divisional Combined Assurance Forums and conducted deep dives into some of the business units.
- Approved the external audit plan for the financial year and feedback from external audit at the financial year end meeting.
- Approved external audit fees.
- Reviewed management's assessment of going concern.
- Reviewed the development of the combined assurance model.
- Reviewed the group's internal financial controls (IFC).
- Reviewed the group's IT governance processes, including information security, disaster recovery plans and testing, and data governance.
- Provided recommendations on dividend proposals to the board.
- The Committee satisfied itself with the independence and objectivity of the external auditor and other requirements in terms of section 94(8) of the Companies Act and King IV principles and Recommended Practices.
- Ensured the independence of the internal audit function and that is has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties as per King IV good governance requirements. This included assessing the performance of the chief audit executive and the internal audit function.
- The committee satisfied itself that the group finance director has the appropriate expertise and experience to act in this capacity.
- Oversaw the companies risks which included financial reporting risks, IFC, and fraud and information technology risks relating to financial reporting.

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

BOARD EVALUATION

In line with best practice and the King IV recommended practices, MMI conducted a board and board committee evaluation (including a director self-assessment) in April 2017 for MMI Holdings Ltd and MMI Group Ltd. All directors participated in the process and the final evaluation report was tabled at the MMI Nominations Committee and MMI board meetings at the end of June 2017. The overall performance of the board and the individual members confirm an effective and well-performing board.

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 Promotion of Access to Information Act (PAIA). MMI's information officer in terms of PAIA is Douw Lotter.

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, the MMI executive established the MMI IT executive committee (IT exco) to oversee all IT governance and the IT strategy to support MMI's strategic objectives. The IT exco further established the MMI IT Architecture Committee to manage the design of MMI's technology deployment. The board is ultimately responsible for IT governance and the implementation of the overall IT strategy.

Key responsibilities of the IT exco include:

- Setting direction for how technology and information should be approached and addressed in MMI by developing an MMI IT philosophy and IT strategy.
- Approving a policy to articulate and give effect to the MMI IT philosophy and IT strategy on employing technology and information.
- Delegating to management the responsibility to implement and execute effective technology and information management.
- Exercising oversight of technology and information management and, in particular, ensuring that it results in:
  - Integration of people, technologies, information and processes across the organisation.
  - Integration of technology and information risks into organisation-wide risk management system.
  - Arrangements to provide for business resilience.
  - Proactive monitoring of intelligence to identify and respond to incidents, including cyber attacks and social media events.
  - Management of the performance of, and the risks pertaining to, third parties and outsourced providers.
  - The assessment of value delivered to MMI through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.
  - The responsible disposal of obsolete technology and information in a way that considers environmental impact and information security.
  - Ethical and responsible use of technology and information.
  - Compliance with relevant laws.

Corporate governance report (continued)

- Exercising oversight of the management of information and, in particular, that it results in:
  - Leveraging of information to sustain and enhance MMI's intellectual capital.
  - An information architecture that supports confidentiality, integrity, and availability of information.
  - Protection of privacy of personal information.
  - Continual monitoring of the security of information.
- Exercising oversight of the management of technology and, in particular, that it results in:
  - A technology architecture that enables the achievement of strategic and operational objectives.
  - Management of risks pertaining to the sourcing of technology.
  - Monitoring and appropriate responses to developments in technology, including the capturing of potential. opportunities and the management of disruptive effects on MMI and its business model.
- Considering the need to receive periodic independent assurance on the effectiveness of MMI's technology and information arrangements, including outsourced services.
- Disclosing in relation to technology and information:
  - An overview of the arrangements for governing and managing technology and information.
  - Key areas of focus during the reporting period, including objectives, significant changes in policy, significant acquisitions, and remedial actions taken as a result of major incidents.
  - Actions taken to monitor the effectiveness of technology and information management, and how the outcomes were addressed.
  - Planned areas of future focus.

The chairman of the IT exco is the deputy chief executive Officer, who is also a member of the MMI exco.

MMI has also appointed a chief technology officer (CTO), Mr C Kruger who, together with the deputy CEO, takes ownership of and responsibility for the MMI IT philosophy, strategy and governance. The CTO reports to the deputy CEO. All IT governance issues are reported to the Board Risk, Capital and Compliance Committee through the IT exco.

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 was 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 CEO.

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 its business.

The following is an overview of proposed and current legislation that will have or already has had a significant impact on our business:

LEGISLATION	MANAGEMENT
Financial Sector Regulation Act and Insurance Bill	The Financial Sector Regulation Act 9 of 2017 has been promulgated in August 2017 and is awaiting proclamation. The Act is intended to give effect to the government decision in 2011 to shift to a twin peaks model of financial sector regulation for South Africa. The Financial Sector Regulation Act, 2017 will come into effect on a date determined by the Minister by notice in the Gazette. Different dates may be determined by the Minister in respect of the coming into effect of: (a) different provisions of the Act; (b) different provisions of the Act in respect of different categories of financial institutions; and (c) the repeal or amendment of different provisions of a law repealed or amended by the Act. The National Treasury presented its response to public comments received on the Insurance Bill, to Parliament's Standing Committee on Finance in May 2017. Key issues addressed in the proposed revisions included the following: • Transformation of insurance sector. • Promoting financial inclusion through micro-insurance. • Cost of regulation as a barrier to entry. • Alignment with the Financial Sector Regulation Bill. MMI is participating in industry bodies and the public comments processes.
Financial Intelligence Centre Amendment Act	The Financial Intelligence Centre Amendment Act seeks to amend the Financial Intelligence Centre Act to enhance South Africa's ability to combat financial crimes by proposing measures to address threats to the stability of South Africa's financial system posed by money laundering and terrorism financing. The Financial Intelligence Centre Amendment Act was promulgated on 2 May 2017. The Minister of Finance accounced the coming into operation of a number of provisions of the FIC Amendment Act on 15 June 2017. The first set of provisions commenced on 13 June and the second set of provisions will commence on 02 October 2017. MMI has reviewed its anti-money laundering policies and procedures to align with the requirements of the Amendment Act.
IFRS 17	In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17, Insurance Contracts. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. MMI will need to apply the standard for reporting periods from 1 July 2021 onwards. Significant effort and cost will be required to develop appropriate processes, systems and data over the next four years as the standard requires a substantial overhaul of MMI's profit reporting on its insurance business. We are incorporating IFRS17 requirements in a number of developments planned for the next financial year.

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 have satisfied themselves 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 interests 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 IV 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, whose remuneration is set out on pages 100 and 101.

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 that deals with disclosure by members of exco 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 that deals with the identification, classification and effect of information arising in the ordinary course of business and information not arising 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.

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, and is thus considered as a non-independent director.

The non-executive directors, Peter Cooper and Khehla Shubane, although directors of RMI Holdings Ltd (a 25% shareholder in MMI), are not appointed as shareholder representatives on the MMI board and do not exercise any control or influence on the board, which is no different to that of any other MMI director. Thus, they are considered as independent directors.

Directors' shareholding

The direct and indirect shareholding of the directors of MMI as at 30 June 2017 are set out on the following two pages. Directors have access to the group's shares through the open market.

MMI directors' MMI shareholding

As at 30 June 2017

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**
Khehla Shubane	78	7	**85**
Frans Truter	44	433	**477**
Johan van Reenen	–	40	**40**
Jabu Moleketi	–	112	**112**
Mary Vilakazi	–	1 703	**1 703**
Peter Cooper	292	150	**442**
Stephen Jurisich**	–	–	**–**
Total listed shares	**498**	**8 410**	**8 908**

* *Resigned as director of MMI Holdings Ltd 22 November 2016.*
** *Appointed as director of MMI Holdings Ltd on 1 October 2016 – 169 shares held in MMI.*

Trades in MMI shares F2017	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Jabu Moleketi	2016-09-08	R24-17	42 000	Purchase	Indirect

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**

* *Resigned as director of MMI Holdings Ltd on 22 November 2016*
** *Retired as director of MMI Holdings Ltd on 30 September 2015*

European call options on MMI shares

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

European call options on MMI shares	Transaction date	Reference price	Strike price	Number of options	Expiration date
Nicolaas Kruger	2015-12-07	R22-10	R39-78	1 524 769	2020-11-13
Mary Vilakazi	2015-12-07	R22-10	R39-78	609 907	2020-11-13
Nicolaas Kruger	2015-12-10	R21-10	R37-99	2 733 082	2020-11-13
Mary Vilakazi	2015-12-10	R21-10	R37-99	1 093 233	2020-11-13

MMI directors' RMI shareholding

As at 30 June 2017

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**
Khehla Shubane	25	10	**35**
Frans Truter	21	164	**185**
Peter Cooper	758	3 061	**3 819**
Stephen Jurisich**	3	–	**3**
Total listed shares	**830**	**4 433**	**5 263**

* *Resigned as director of MMI Holdings Ltd on 22 November 2016*
** *Appointed as director of MMI Holdings Ltd on 1 October 2016*

Trades in RMI shares F2017	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Frans Truter	2017-05-31	R40-00	10 000	Purchase	Indirect

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**

* *Resigned as director of MMI Holdings Ltd on 22 November 2016*
** *Retired as director of MMI Holdings Ltd on 30 September 2015*

All changes in directors' MMI and RMI shareholding between 1 July 2016 and 30 June 2017 were published on SENS as prescribed. No changes in the above shareholding/interest occurred between 30 June 2017 and the date of approval of the annual financial statements.

Report of the **Audit Committee**

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.

Frans Truter

Chairman of the Audit Committee

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

Composition and proceedings

The MMI Audit Committee was fully functional during the financial year, and continued to discharge its responsibility with the support of the combined assurance forums established for various operating structures. The combined assurance forums report to the MMI Audit Committee on a quarterly basis.

The Audit Committee consists of four independent non-executive directors, and meetings are attended by key management representatives from the combined assurance forums. In addition, the MMI group chief executive officer (CEO), deputy group CEO and the chief financial officer (CFO) attend all Audit Committee meetings. The external and internal auditors attend meetings by invitation, and they also meet independently with the members of the Audit Committee as and when required.

Additional details on the Audit Committee can be found on page 74 of this integrated report.

Terms of reference

The Audit Committee's terms of reference were approved by the MMI board previously. The Audit Committee has regulated its affairs in compliance with its terms of reference and has discharged its responsibilities accordingly.

The terms of reference, including roles and responsibilities, are aligned to the requirements of King III, the Companies Act and other regulatory requirements. A further review of the terms of reference is underway in order to align with the King IV recommended practices, as applicable.

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 (IRBA). Requisite assurance was sought and provided by the external auditor that the 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 25 to the annual financial statements on page 191.

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

The Audit Committee has assessed the competency, independence, non-audit services provided and professional standing of the audit firm and designated auditor and consider the appointment appropriate. The Committee has also satisfied itself that the audit firm and designated auditor are accredited on the JSE list of auditors and their advisers.

The rule on mandatory audit firm rotation published by IRBA during June 2017 states that the appointed auditors of a public interest entity (PIE) shall not serve for more than 10 consecutive years as the appointed auditor of such PIE. This requirement comes into effect for financial years commencing on or after 1 April 2023. MMI has taken note of this legal development and its bearing on its appointed auditors in the future.

Internal audit

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

MMI's chief audit executive (CAE), Ms Ashlene van der Colff, is now Acting CAE since her recent appointment as MMI Group head of operations. The role of the CAE within MMI is supported by a more confined group internal audit (GIA) team, and the CAE is responsible for managing and coordinating the KPMG relationship. The Audit Committee is satisfied that the co-sourced GIA model with KPMG has resulted in a high-performing, better quality and efficient GIA function for MMI. The co-sourced model has also improved the level of independent assurance and access to subject matter assurance expertise provided to the MMI board and its committees.

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

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

The group continues to embed the combined assurance methodology, and the results were reported to the 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 segments and business units. 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 that the internal financial controls are not sufficiently adequate to support integrity in the presentation of the financial statements. This assessment was based on the results of the documented review noted above, information and explanations given by management and the GIA function, as well as discussions with the independent external auditors on the results of their audits.

Group finance director

Mary Vilakazi continues in her role as the MMI group finance director, in addition to her recent appointment as the MMI deputy group CEO. She is supported in her role as finance director by Risto Ketola, the newly appointed group CFO.

The Audit Committee has satisfied itself that Mary Vilakazi has the appropriate expertise and experience to act as group finance director and that her team has established appropriate financial reporting procedures.

Governance of risk

The board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance (RCC) Committee. The chairman of the RCC Committee is a member of the Audit Committee and likewise, the chairman of the Audit Committee is a member of the RCC Committee, which arrangement ensures that information relevant to these committees are transposed 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 2017 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.

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 IV.

Going concern

The Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and has made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 105 of this integrated report.

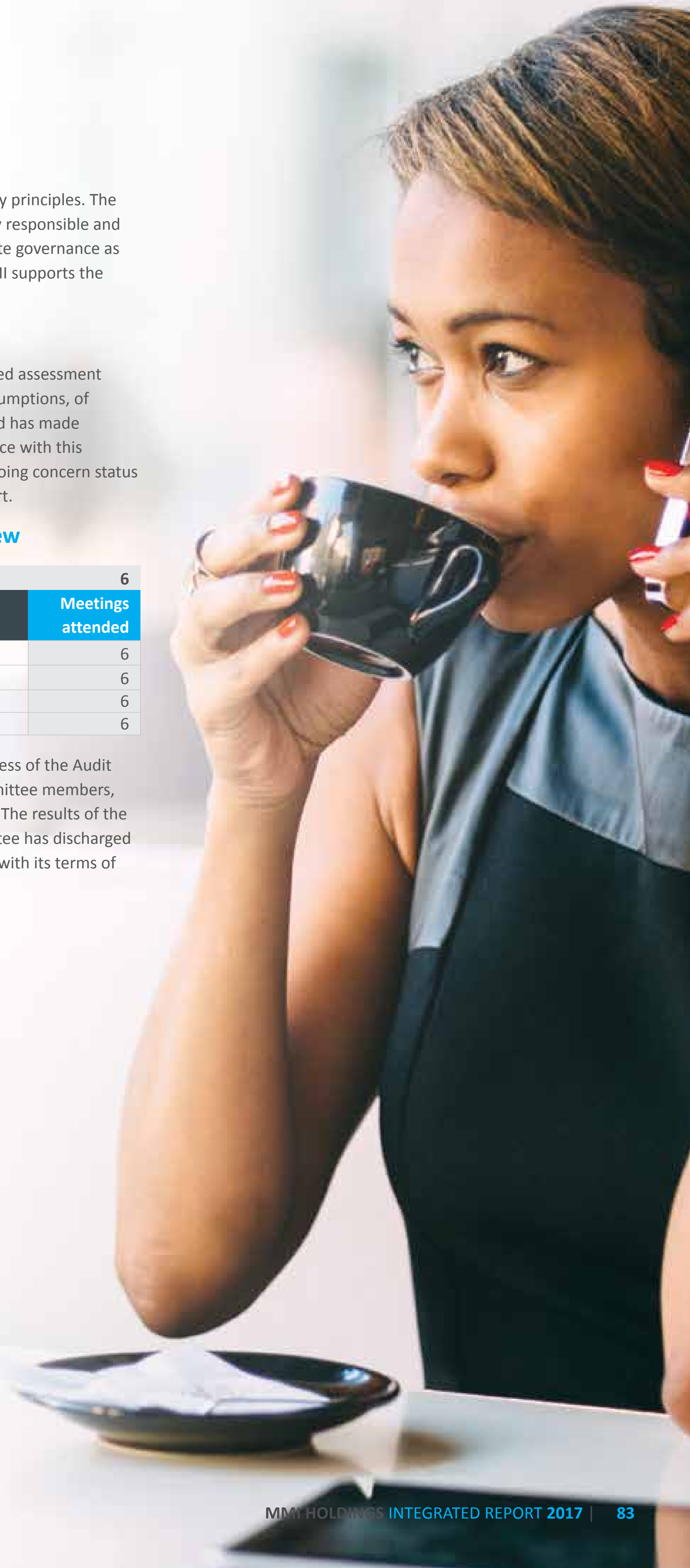
Meetings and effectiveness review

Meetings held in F2017	6
Members	**Meetings attended**
Frans Truter (chairman)	6
Fatima Jakoet	6
Syd Muller	6
Louis von Zeuner	6

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 results of the assessment reiterate that the Audit Committee has discharged its duties and responsibilities in accordance with its terms of reference.

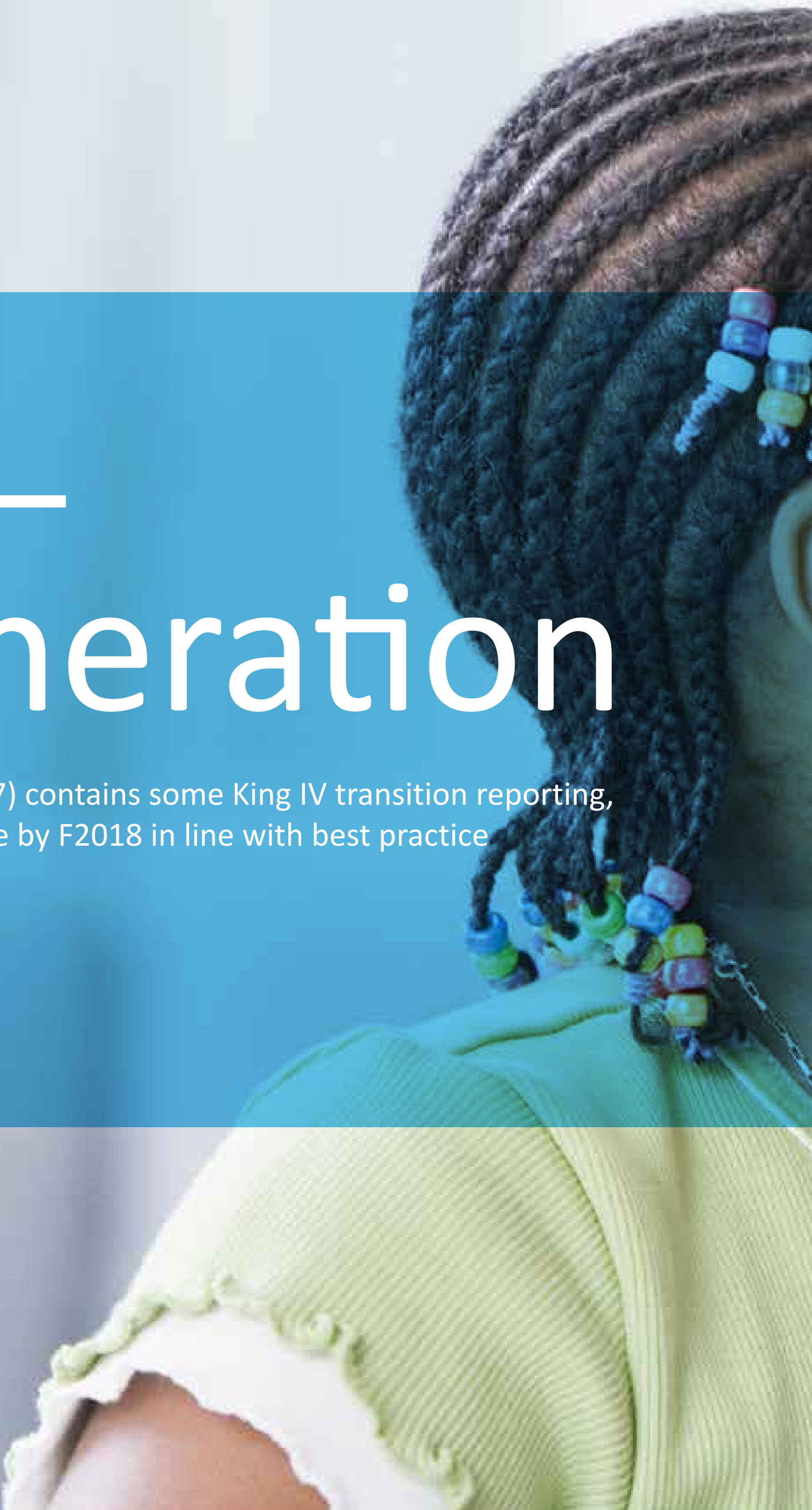
FRANS TRUTER
Chairman of the MMI Audit Committee

5 September 2017



Remuneration

While the 2017 financial year (F2017) contains some King IV transition reporting, MMI is committed to full compliance by F2018 in line with best practice governance standards.



Remuneration report

Part 1: Message from the chairman of the Remuneration Committee

We regard our remuneration practices as key enablers to achieving the group's strategic objectives.

Peter Cooper

Chairman Remuneration Committee

Dear Shareholder

During the past year, the Remuneration Committee has reviewed MMI's remuneration policy to ensure alignment with the principles contained in the King IV Report on Corporate Governance™ (hereafter referred to as King IV) and, where practically possible, we have applied these principles in this report. While the 2017 financial year (F2017) contains some King IV transition reporting, MMI is committed to full compliance by F2018 in line with best practice governance standards. We have also taken care to align remuneration with performance as a key principle of the group's remuneration policy.

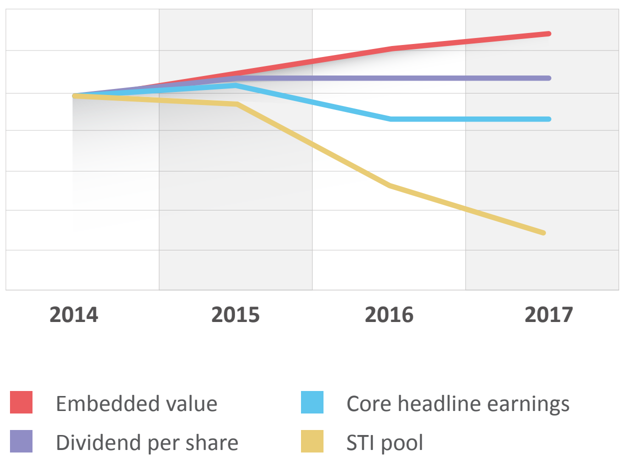
As a result of the extremely challenging economic environment, MMI found it particularly difficult to meet the financial performance targets set for the annual short-term incentive scheme (STI). These performance targets are set using MMI's long-term growth objectives. The STI balanced scorecard reflects a rating of 73% of target, with the key measures in the scorecard being as follows:

- Core headline earnings (20% weighting)
- Return on embedded value (excluding investment variances) (20% weighting)
- Value of new business (15% weighting)
- Expense efficiencies (10% weighting)
- Strategic objectives (35% weighting)

These financial indicators were impacted by:

- The negative effects of the current economic environment, especially on group disability underwriting profits and new business volumes.
- A lack of investment market growth and lower than expected asset inflows.
- The group's continued investment in strategic growth initiatives.

Over the past four years, the outcome derived by shareholders and the benefit accruing to staff in terms of the STI has reflected a consistent and fair outcome, as is illustrated in the following graph:



The long-term incentive plan (LTIP) performance measure, being return on embedded value (ROEV), was 4.7% for F2017, compared with the target of the 10-year RSA government bond rate + 3%, or 12.2%, for the current financial year.

The LTIP vesting on 1 October 2017 (relating to LTIP's allocated in 2014) is 88%. The 2014 allocations were the last made using nominal GDP + 3% as a targeted level of performance, and the group achieved an ROEV of nominal GDP + 2.5% over the vesting period. The outcomes of our remuneration policy and the alignment with targets set for remuneration vesting are disclosed in detail in Part 3 of this report on page 98.

At the end of the current financial year, the group announced significant changes to the executive committee. To provide the new executive team with a stable base on which to build, we implemented a one-year retention structure and reinforced the LTIP with a further three-year incentive, subject to normal vesting criteria.

Our engagement

Last year our remuneration policy received a 69% advisory vote from our shareholders. We have solicited feedback from shareholders (and proxy voting advisers) regarding their concerns. Where clarification was requested, this has been provided, however, some elements require greater consultation with shareholders and review by the Remuneration Committee (with the aim of including any amendments in MMI's forward looking remuneration policy from F2018 onwards).

Shareholder/proxy voting advisers feedback	Feedback and actions
Large payment to exiting executive director (policy on termination payments) during F2016	The employment contracts for members of executive management do not commit the company to make service payments in the event of termination of employment on account of their failures. Upon termination of employment, the company will make payments as required in terms of legislation, and the consequences of unvested short-term and long-term incentives will be governed by the rules of the incentive plans and the basis for termination of employment. The Remuneration Committee however has the discretion to negotiate mutual separation agreements. The second payment made to the exiting finance director during F2017 represents a restraint of trade payment.
Use of retention shares is not in line with best practice.	The Remuneration Committee has reviewed the use of retention units, and has decided that in future retention units will only be allocated in specific circumstances and subject to the committee's approval.
Payment of hourly fees on an ad hoc basis to non-executive directors for additional work.	Commercial reality requires non-executive directors to perform ad hoc committee work not scoped in the annual board calendar and the ad hoc fees are intended for these purposes.
It is not clear what the maximum award limit is for short-term incentives (STI) and LTIP.	STI is capped at 200% of total guaranteed pay (TGP) for absolute outperformance and the maximum annual allocation for LTIP is also capped at 200% of TGP, subject to the discretion of the Remuneration Committee. These caps are in line with South African market best practice. In addition, STI payments above specific hurdles are deferred into cash (up to 12 months) and restricted units in terms of the LTIP plan (vesting two years after STI payment date, ie in September). See Part 2 of this report on page 90 in this regard. Deferred STI and unvested LTIP are further subject to pre-vesting forfeiture provisions under certain circumstances. See Part 2 of this report on page 90 for further detail.

Shareholder/proxy voting advisers feedback (continued)	Feedback and actions (continued)
The performance period for the LTIP is three years without a further holding period, which is not considered sufficiently long-term.	Minimum shareholding requirements were introduced in F2015. In terms thereof, the group chief executive officer (CEO) should directly hold MMI shares to the value of 200% of TGP until termination of services (with group executive committee members at 100% of TGP), to be built up over five years from 2015. These minimum shareholding requirements are regularly monitored by the Remuneration Committee. Therefore, sufficient post vesting holding requirements exist for LTIP for senior executives. These requirements are reviewed on a regular basis by the Remuneration Committee and adjusted in line with market practice, where necessary. In addition, the senior executive team holds a once-off (unvested) award of LTIP (awarded in 2015), which will only vest in 2018 (60%) and 2019 (40%) if performance targets are met. Details of the performance conditions for this once-off award are contained in Part 2 on page 90 of this report, while the unvested LTIP instruments are disclosed in the LTIP table in Part 3 on page 98 of this report. During F2016, key executives purchased MMI shares utilising third-party financing. Through this management buy-in, executives have all the upside and downside risks of a shareholder.
The chairman of the Remuneration Committee is not an independent non-executive	The F2016 Integrated Report indicates that the chairman of the Remuneration Committee is a non-independent non-executive director. This related to the fact that he served as CEO of RMI Holdings until the end of June 2014, however the required three-year cool-off period has now elapsed and he is now regarded as an independent non-executive director. Although he has remained a board member of RMI Holdings, he is not appointed to the Board of MMI Holdings as a shareholder representative of RMI Holdings, and therefore remains an independent non-executive director.
The LTIP vesting is based on only one performance condition. Best practice would be to operate at least two different metrics interdependently and to include non-financial metrics.	The LTIP is geared towards growth in ROEV, which is in line with MMI's objectives of long-term value creation for shareholders (which, on a group level, is measured as ROEV). ROEV is the best practice performance metric for long-term insurers in the market. The Remuneration Committee continually reviews LTIP performance metrics to ensure that these remain appropriate.

Changes made to further support shareholder value creation

The Remuneration Committee reviewed the group's incentive design and made the following enhancements during F2017, which we believe will further support shareholder value creation and our principle of performance-based remuneration:

- Pre-vesting forfeiture (malus) was introduced for deferred bonuses and unvested LTIP. Forfeiture is invoked in the event of fault events that can be traced to the actions of a specific individual or individuals. The policy detail is contained in Part 2 on page 90 of this report.
- For the 2016 LTIP allocation, the threshold performance condition for performance units (warranting 30% vesting) was increased from an annualised ROEV (over a forward-looking three year period) equal to the "risk free rate" to an annualised ROEV equal to the "risk free rate + 1.5%". The stretch performance condition of an annualised ROEV of "risk free rate + 6%" (warranting 200% vesting) was retained as it is robust and stretching.
- Alignment of the non-executive director fee policy for directors serving on MMI boards, incorporated offshore, with best practice.

- Reviewed the Value Added Tax (VAT) implications for non-executive director fees and ensured legislative compliance as reflected in the shareholder resolution for the AGM pertaining to non-executive director fees.

As forward-looking objectives for F2018, the Remuneration Committee will continue to review best market practices (particularly as they pertain to financial services) and debate topics such as post-vesting incentive forfeiture (claw-back), stress testing of incentive pools in scenarios of threshold/target and stretch performance, and robust financial targets for variable remuneration. In addition, from a group-wide perspective we are sensitive to income differentials within MMI to ensure fair and responsible remuneration.

We are comfortable that MMI's remuneration policy largely achieved its stated objectives. In reviewing best practice and making enhancements to our remuneration policy, we consulted with independent remuneration consultants and used benchmarking data from market-leading salary surveys to inform our decisions.

In line with King IV, we will put the remuneration policy and implementation report to a shareholder advisory vote at the AGM. We trust you recognise the proactive approach taken by this committee and MMI in relation to remuneration and will endorse this Remuneration report in your advisory vote.

Peter Cooper
Chairman: Remuneration Committee

5 September 2017

Remuneration report (continued)

Part 2: Forward-looking remuneration policy

Remuneration governance

The Remuneration Committee consists entirely of independent non-executive directors, and reviews and oversees the remuneration policy and practices across the group. The CEO and other members of exco attend meetings by invitation, but do not vote and are not present when their remuneration is discussed.

The Remuneration Committee had three meetings in F2017, with attendance set out in the table below.

Meetings held in 2016/2017	3
Members	**Meetings attended**
Peter Cooper (chairman)*	3
Jabu Moleketi*	1
Ben van der Ross*	3
Johan van Reenen*	3

*Independent non-executive director

The Remuneration Committee's full terms of reference, including its mandate, are available on **www.mmiholdings.co.za.** The key decisions, insofar as amendments to the remuneration policy during F2017, are summarised in Part 1 on page 88 of this report.

Remuneration policy

MMI's remuneration policy addresses remuneration on an organisation-wide basis and is one of the key components of the group's overall human resources strategy, which fully supports the overall business strategy. It supports the MMI group strategy by helping to build a competitive, high-performance and innovative group with an entrepreneurial culture that attracts, retains, motivates and rewards high-performing employees. It further promotes the achievement of the group's strategic objectives and the positive outcomes of the performance conditions across the integrated reporting capitals that MMI uses or affects.

Key elements of MMI's remuneration policy

MMI's remuneration philosophy is supported by a robust performance management practice, which strives to set all employees' total remuneration package at a competitive level by benchmarking to the market and providing incentives geared to drive the agreed-upon performance outcomes, where appropriate.

The remuneration policy is fundamentally based 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 customers.
  - Contains arrangements for ensuring that executive remuneration is fair and responsible in the context of overall company remuneration.
  - Encourages the use of metrics to assess performance, taking into account the level of achievement as well as the risks taken in achieving that level of performance (ie performance measures are risk-adjusted where appropriate).
- The remuneration policy, procedures and practices are consistent with and support effective risk management.
- Salaried employees are rewarded on a total rewards basis, which includes guaranteed, variable, short- and long-term as well as intangible rewards (in line with market practice).
- All remuneration (guaranteed and variable) is differentiated based on performance and reviewed annually.
- The guaranteed component of the reward includes a base salary, pension and benefits that are normally set at the market median level.
- Total remuneration (base salary, pension, benefits and incentives) is targeted in normal market conditions to the relevant competitive market at upper quartile levels for superior performance.
- Incentives aimed at encouraging retention are clearly distinguished from those relating to rewarding performance.
- The option to pay a low or 'no performance' bonus, should the performance of the group, business unit or individual warrant this.
- Adherence to principles of good corporate governance, as depicted in best practice and regulatory frameworks (such as King IV and Solvency Assessment and Management). Regarding the manner in which variable incentive payments are awarded, distinctions are drawn between employees who operate in a risk-taking capacity and those who fulfil fiduciary roles (such as heads of control functions). As such the variable incentives for employees in fiduciary roles do not depend on the performance of the group, but are determined only with reference to the performance of the individual. This is to ensure that the independence of employees who act in a fiduciary capacity is not unduly compromised, and conflict of interests are minimised.

- Three performance components are appraised, based on a robust performance management system, being group, business unit and individual performance.
- Subjective and objective measures are used for individual performance appraisal purposes.
- The remuneration policy takes into account MMI's internal levels 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 take into account the relevant market rate for the particular job, and are broad and flexible.
- Individuals are remunerated for their unique individual contribution, as well as for their contribution to, or collaboration in, meeting team objectives.
- The STI, 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.
- The LTIP focuses on the realisation of the group's vision and on aligning performance with longer-term value-adding objectives over a three-year period or longer.
- The remuneration of employees in the risk and compliance functions is determined independently of the various business units in MMI, with performance measures based principally on achieving 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.
- The remuneration policy offers flexibility for the customisation of remuneration and benefits, ie work/life balance and specific business needs.
- MMI has a large number of sales employees whose primary remuneration structure is based on sales commissions linked to sales volumes and quality of new business. Commission structures may differ between divisions.
- Certain employees, for example those in sales and client service environments, are remunerated on a pay-for-performance basis, using predefined quantitative and qualitative measures.

Remuneration report (continued)

Part 2: Forward-looking remuneration policy (continued)

REMUNERATION STRUCTURE

Pay mix

The pay mix, being the proportional split between total guaranteed pay (TGP), short-term incentive (STI) and long-term incentive (LTI), forms the basis of the remuneration structure applicable to all employees as follows:

Level	TGP and benefits	STI	LTIP
Key management (including CEO and Deputy CEO/Finance Director	Guaranteed cost to company	Performance bonus	Cash-settled phantom share plan
Senior management and critical roles	Guaranteed cost to company	Performance bonus	Cash-settled phantom share plan
General employees	Guaranteed cost to company	Performance bonus	–
Non-executive directors	Annual board retainer fee and committee fees only	–	–

On an executive management level, the table below shows the pay mix for the CEO and Deputy CEO/FD respectively, at threshold, target and stretch levels of performance. The pay mix at executive level is weighted towards "at-risk" variable pay, and in turn the variable pay is contingent on meeting financial and strategic performance targets and realising the company's remuneration policy. The objective is to achieve a balanced pay mix appropriate for the job, level and performance of each executive.

Below-threshold performance

Position	TGP	STI	LTIP[1]
CEO	82%	0%	18%
Deputy CEO/FD	77%	0%	23%

Target performance

Position	TGP	STI	LTIP[1]
CEO	27%	24%	49%
Deputy CEO/FD	30%	24%	46%

Stretch performance

Position	TGP	STI	LTIP[1]
CEO	16%	28%	56%
Deputy CEO/FD	18%	29%	53%

[1] *Based on a normal annual allocation*

Fair and responsible remuneration

MMI is committed to the principle of fair and responsible remuneration across the group, and therefore considers the fairness of executive remuneration in the context of remuneration paid to all employees. Actions in this regard include:

- Ongoing assessment of remuneration conditions between employees at the same level in accordance with the principle of equal pay for work of equal value, to identify and address any unjustifiable remuneration disparities.
- Investing in people initiatives, which include talent mapping for employees across the group, employee development, various training courses, and an extensive employee value proposition. MMI believes these initiatives create a work environment and work culture conducive to an employee's growth, and ultimately empowering its employees.

Total guaranteed pay

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, receive TGP irrespective of company performance.

The key objective is to provide the base element of remuneration that reflects the person's position at MMI and is payable for doing the job expected of them. TGP is paid monthly on a cost to company basis, and remuneration levels are generally targeted at the median or 50th percentile level.

TGP is normally benchmarked against the financial services market, and is set at a level that is competitive to the market and aligns with expected operational performance. The benchmarking peer group is selected based on size and sector, and is considered appropriate to MMI's business.

MMI is cognisant of its internal wage gap. As envisaged by the principles of fair and responsible remuneration, the Remuneration Committee takes into account pay levels across the company (including for middle management and general staff) when setting average executive remuneration increase levels.

Additionally, and when considering increases, the Remuneration Committee takes into account factors including, but not limited to, inflation, affordability, budgets, market trends, competitor remuneration, and scarcity of skills.

Short-term incentive plan

The group's key STI is a non-guaranteed performance bonus, paid annually as a percentage of an individual's TGP. Most employees are eligible to participate in the STI.

Performance conditions and weightings	Performance period	Strategic purpose	Positive outcomes across integrated reporting capitals
Financial (65%) • Core headline earnings • ROEV • VNB • Cost efficiency **Strategic initiatives (35%)** • Client aspiration and satisfaction • Internal objectives such as growth and client centricity • Strategic enablers such as flexibility, analytical capabilities and innovative culture • Transformation	One year	To create a performance culture by rewarding individuals/teams for achieving strong annual results in terms of pre-determined targets.	**Financial** Core headline earnings growth impacts positively on dividend growth, whilst ROEV and VNB impact positively on value, which drives share price growth and consequently the overall return to shareholders. **Social and relationship** Achieving a financially-well client base will result in improved social conditions for clients and their communities.

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.

Group and business unit objectives are set by the Remuneration Committee. Individual objectives must be agreed with the employee's line manager or team leader. For the executive, objectives are agreed with the CEO (and approved by the Remuneration Committee), while the CEO's strategic objectives are agreed with the board.

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.

Accrual of STI pool

For any STI pool to accrue, threshold scorecard performance needs to be achieved. The STI is therefore self-funding.

Individual earning potentials, STI deferral and pre-vesting forfeiture

On-target STI as a percentage of TGP is:

- CEO – 90%.
- Executives, (including the group deputy CEO/FD) – 70%.

STI is capped at 200% of TGP for stretch performance.

Provided all relevant group performance objectives are met, the STI pool is determined annually, and allocated firstly based on business unit performance and then on individual performance. The cash component is paid in September (following financial year-end), however, MMI has an STI deferral policy as follows:

Quantum	Deferral terms
Up to R1.5 million	50% in cash three months after financial year-end (ie September). 50% paid six months after financial year-end.
≥ R1.5 million and up to R2.75 million	Deferred as above up to R1.5 million. 60% of amount above R1.5 million paid 12 months later and 40% deferred into units in LTIP vesting two years after STI payment date (ie September).
≥ R2.75 million	40% of amount above R1.5 million deferred into units in LTIP vesting two years after STI payment date (ie September). Remainder of STI paid in three tranches (ie September after financial year-end, six months after financial year-end, and 12 months after financial year-end).

Forfeiture

In the event of certain trigger events attributable to an individual, all deferred STI (in cash or units in the LTIP) can be forfeited. See "Pre-vesting forfeiture applicable to STI and LTIP" later in this report.

Long-term incentive plan (LTIP)

The group's LTIP is a phantom share plan wherein participants are paid a cash amount referencing the value of MMI's share price, subject to meeting pre-determined performance objectives that apply to performance units, and remaining in the employ of the group until the vesting date.

Why an LTIP?

The purpose of the LTIP is to attract, motivate, reward and retain employees who are able to influence the performance of the group on a basis that aligns their interests with those of the group's shareholders.

What performance objectives must be met for vesting and why ROEV?

Variable remuneration	Performance conditions and weightings	Performance period	Strategic purpose	Positive outcomes across integrated reporting capitals
LTIP	Financial - ROEV (100%)	Three years	To attract, motivate, retain and reward key employees.	Financial - ROEV growth impacts positively on value, which drives share price growth and consequently the overall return to shareholders.

Granular performance hurdles and vesting profile for annual LTIP allocations at different performance scenarios:

Threshold	Target	Stretch
Annualised ROEV over the performance period (normally three years) to meet/ exceed the 10-year zero-coupon RSA bond yield at the start of the financial year (defined as "risk free rate") + 1.5%.	Annualised ROEV over the performance period (normally three years) to meet/ exceed the "risk free rate" + 3%.	Annualised ROEV over the performance period (normally three years) to meet/ exceed the "risk free rate" + 6%.
	Vesting percentage and profile	
30% (threshold) →	**linear vesting to** →	200% (stretch)

Note that the above applies for LTIP allocations for October 2015 and October 2016. For the LTIP tranche allocated in October 2014 that vests in October 2017, the performance criteria was referenced to the nominal South African GDP rate, with vesting taking place as follows:

- Threshold vesting (30%) takes place at an annualised ROEV over the period equal to the nominal GDP rate. Below this rate, performance units are forfeited.
- Targeted vesting (100%) takes place at an annualised ROEV over the period equal to the nominal GDP rate + 3%.
- Stretch vesting (200%) takes place at an annualised ROEV over the period equal to the nominal GDP rate + 6%.

Vesting is linear between the threshold and outperformance levels.

Setting of LTIP performance objectives

- The Remuneration Committee may, at its sole discretion, 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.

Annual LTIP allocations

MMI makes awards under the LTIP on an annual basis, in line with best practice. The allocation levels, as a percentage of TGP, are set out in the table below.

Position	LTIP allocation level (as a % of TGP)
CEO	Face value of 180% of TGP
Deputy CEO/FD	Face value of 150% of TGP
Other executive committee members	Face value of 100% to 150% of TGP

In addition to the above, dividend units are allocated to participants upon dividend declaration dates.

Once-off LTIP award

In F2015, a once-off LTIP award was made to certain executive members. This award was in terms of the rules of the LTIP and carries stretch performance conditions for vesting.

Full vesting (100%) will only take place should the annualised group ROEV exceed nominal GDP growth + 6% over the five-year performance period ending in F2019. Details regarding this unvested once-off LTIP award are disclosed in the LTIP table in Part 3 on page 98.

Mix of LTIP allocations

For normal annual allocations, performance units comprise at least 80% of the LTIP allocations made to the executives, to ensure alignment of executive long-term incentives to shareholder outcomes.

Share purchase plan (executive buy-in)

During F2016, key executives purchased MMI shares utilising third-party financing (with market-related loan conditions). This management buy-in has the effect that participating executives have all the upside and downside risks of shareholders. Details regarding this direct shareholding are disclosed on page 80.

Minimum shareholding requirements

Minimum shareholding requirements introduced in 2015 are in line with global best practice. These requirements encourage executives to utilise their LTIP vesting benefit to buy MMI shares and to be personally invested in the company, thus increasing executive ownership and alignment between executive and stakeholder interests.

The CEO's requirement (expressed as a percentage of TGP) is 200%, and for other executives 100%.

The Remuneration Committee will, from time to time, set requirements for executives, such as the minimum required shareholding, and the period over which it should be achieved, and monitor compliance with these requirements.

Early termination of employment

In the event of resignation or dismissal for just cause, all unvested incentives, ie deferred STI and LTIP, will be forfeited in terms of the relevant incentive plan rules.

In the event of death, disability, retrenchment, retirement or early retirement, unvested incentives will vest pro-rata based on the extent to which performance conditions were met, if applicable, and the time of employment from award date to termination of service date.

The Remuneration Committee can exercise its discretion in the event of pro-rata vesting for unvested incentives at termination of employment.

Pre-vesting forfeiture of STIs and LTIPs (malus provision)

The group has a pre-vesting forfeiture policy that applies to all unvested and deferred STIs and LTIPs, ie unvested incentives. The Remuneration Committee may, at any time on or before the vesting date for unvested incentives, reduce the quantum of the cash STI or number of units comprising the LTIP in whole or in part after the occurrence of an actual risk event (trigger event). Trigger events include, but are not limited to:

- Reasonable evidence of actions or conduct which, in the reasonable opinion of the board, amounts to employee misbehaviour, dishonesty, fraud or (gross) misconduct.
- Discovery of a material misstatement of the financial results for the performance or employment period of the incentive, resulting in an adjustment in the audited consolidated accounts of MMI or, where the employee is employed by a subsidiary of MMI, the audited accounts of that subsidiary.
- In the case of incentives that are subject to the achievement of prospective performance objectives, the assessment of any performance metric or condition in respect of an incentive that was based on error, or inaccurate or misleading information.
- The discovery that any information used to determine the quantum of cash incentives, or the number of shares subject to a long-term incentive award was based on error, or inaccurate or misleading information.
- Subsequent under performance on an individual level.
- Events or behaviour of the employee or the existence of events attributable to an employee that have led to the censure of MMI or, where the employee is employed by a subsidiary of MMI, that subsidiary, by a regulatory authority eg the Competition Commission of South Africa. This includes events or behaviour that have had a significant detrimental impact on the reputation of MMI eg a material risk management failure or, where the employee is employed by a subsidiary of MMI, that subsidiary, provided the board is satisfied that the relevant employee was responsible for the censure or reputational damage, and that the censure or reputational damage is attributable to him or her.

The list of trigger events is not exhaustive and the decision to reduce the quantum of unvested incentives ultimately resides with the Remuneration Committee.

The consequence of pre-vesting forfeiture is that any remaining (deferred) bonus tranches or unvested LTIP will be forfeited when a trigger event can be attributed to the actions of a specific individual.

EXECUTIVE AND SENIOR MANAGEMENT – SERVICE AGREEMENTS

Sign-on awards

For appointments that are critical to the business, the group may offer sign-on awards whether in the form of STIs or LTIPs to new members of executive management and key employees. The LTIP sign-on awards are ordinarily subject to a three-year vesting period. The LTIP award will be subject to forfeiture should the employee resign or be dismissed by the group during the vesting period in accordance with the rules of the LTIP. Any cash-based sign-on awards ie STIs will be subject to clawback, and employees will have to repay these awards if they resign from the group within a certain period as documented in their employment contracts. The group CEO has the discretion to determine sign-on awards.

Restraints of trade

The Remuneration Committee may, from time to time, conclude restraint of trade agreements with members of executive management. These restraint of trade agreements may be contractual only ie unpaid or, where appropriate, subject to an appropriate payment, and are aligned with the overall business strategy of the group. Disclosure of these payments will be made in line with any applicable regulatory requirements.

Payments on termination of employment

The employment contracts for members of executive management do not compel the Remuneration Committee to make any payments in the event of termination of employment on account of their failures. Upon termination of employment, any payments made to that executive will be as required in terms of legislation, and the consequences of unvested STIs and LTIPs will be governed by the rules of the incentive plans and the basis for the termination of employment. The Remuneration Committee has discretion regarding all terms of such agreements (to be exercised on a case-by-case basis).

Retention payments

The Remuneration Committee has the discretion to make retention payments to executives and key employees, whether in the form of cash or share-based payments, in exceptional circumstances. The Remuneration Committee reserves the right to make the retention payment subject to vesting periods, performance and/or continued employment, as well as pre-vesting forfeiture where appropriate.

NON-EXECUTIVE DIRECTORS

Non-executive directors, in serving MMI, are paid an annual retainer fee. They do not receive additional fees per meeting. Also, they do not receive performance incentive payments (STI or LTIP), share appreciation rights or options, pension fund benefits, loans on preferential terms, expense allowances or any other form of financial assistance.

The fees for non-executive directors are revised annually and submitted for consideration to the Remuneration Committee. The fees, which require shareholder approval in terms of the law, are further submitted for approval at the MMI Holdings AGM. In considering the non-executive directors' fees, various factors are taken into account, including a review of the market analysis related to non-executive fees. Market benchmarking takes into account the size of the group as well as the complexity of the work performed.

Non-executive directors may receive ad hoc supplementary fees, calculated on an hourly basis, for significant additional work performed during the financial year. Payment of these fees is not guaranteed and is limited to ad hoc committee work required from non-executive directors.

The proposed non-executive directors' fees for F2018 and the fee increase percentages have been approved by the board and are set out below. These will be tabled to shareholders for approval by special resolution in line with section 66(9) of the Companies Act, 71 of 2008.

Non-executive director role	Proposed fee	Current fee	% Increase
Chairperson of the board	1 500 000	1 292 500	16%
Deputy chairperson of the board	750 000	646 280	16%
Board member	465 030	465 030	0%
Chairperson of Audit Committee	387 730	387 730	0%
Member	193 280	193 280	0%
Chairperson of Actuarial Committee	322 510	322 510	0%
Member	193 280	193 280	0%
Chairperson of Remuneration Committee	322 510	322 510	0%
Member	160 660	160 660	0%
Chairperson of Risk Capital and Compliance Committee	387 730	387 730	0%
Member	193 280	193 280	0%
Chairperson of Social, Ethics and Transformation Committee	258 500	258 500	0%
Member	160 660	160 660	0%
Chairperson of Nominations Committee	193 280	193 280	0%
Member	96 640	96 640	0%
Chairperson of Fair Practices Committee	258 500	258 500	0%
Member	160 660	160 660	0%
Ad hoc work (hourly)	The Board may, from time to time, call upon the services of NEDs to undertake additional work and the total paid for such remuneration shall be a market-related hourly rate, subject to approval by the Chairman of the Board.		

Note: The proposal to not increase the non-executive fees (other than for the board chairperson and deputy chairperson, which were adjusted following the annual benchmarking process) takes into account the introduction of VAT on these fees following a recent ruling by the South African Revenue Service, which will not be claimable by MMI Holdings as it has no vatable revenue and is consequently not registered for VAT.

SHAREHOLDER ENGAGEMENT AND VOTING

In line with King IV, the remuneration policy and implementation report are tabled for separate non-binding advisory votes by the shareholders at the MMI Holdings AGM. The Remuneration Committee will engage with shareholders in the event of a 25% or more dissenting vote on the remuneration policy or implementation report (or both) to ascertain the reasons for dissenting votes, and where legitimate and reasonable concerns are raised, we will take the necessary steps to address concerns. The methods of shareholder engagement include conference calls, e-mails and investor roadshows.

TGP outcomes

For F2017, average TGP increase levels for executives were below inflation (excluding any adjustments for role promotions). This is contrasted by average TGP increases for middle management and general staff of 6.0%. MMI remains committed to monitoring, and where possible, mitigating its internal wage gap.

The following table sets out the TGP increases for executive directors:

Executive directors (R'000)[1]	2017	2016	Change (%)
N Kruger	6 875	6 548	5
M Vilakazi	4 688	3 750	25[2]

[1] The remuneration in the table above represents the TGP effective 1 September each year, whereas the remuneration set out in the Directors Emoluments table on page 100 represents amounts actually paid during the financial years ending 30 June.
[2] Includes an adjustment for the change in role to deputy CEO and group financial director.

Total remuneration (single figure)

King IV and the Companies Act require that the individual remuneration of all members of executive management (ie executive directors and prescribed officers) should be disclosed. The identified prescribed officers of MMI are Nicolaas Kruger and Mary Vilakazi.

The single figure remuneration (ie TGP, STI and LTI) disclosure follows the King IV principle to disclose the cash value of TGP and STI for the year, and LTI (LTIPs) that vested on the basis of performance conditions measured on 30 June 2017.

2017 Executive directors R'000[1]	TGP	STI	LTIP[2]	Total
Nicolaas Kruger	6 875	–	10 619	17 494
Mary Vilakazi	4 688	–	4 785	9 473

2016 Executive directors R'000[1]	TGP	STI	LTIP[2]	Total
Nicolaas Kruger	6 548	4 100	12 666	23 314
Mary Vilakazi	3 750	2 250	5 477	11 477

[1] The remuneration in the table above represents the TGP and STI amounts effective 1 September each year, whereas the remuneration set out in the Directors Emoluments table on page 100 represents amounts actually paid during the financial years ending 30 June.

[2] LTIP calculation basis

- *The vesting percentage for the October 2014 performance shares, vesting in October 2017, is 88%.*
- *The year-end share price used for the determination of the LTIP value was R20.24 per share (2016: R22.64 per share).*
- *The LTIP value is based on the value of the number of 2014 performance shares vesting on 1 October 2017 on the basis of performance conditions measured on 30 June 2017, using the share price at 30 June 2017.*
- *In addition, the LTIP value is based on the number of retention shares awarded during the F2017 year at the share price on award date being R22.92 per share (2016: R25.71 per share).*

Subsequent to the year-end, a one-year retention payment was made to the executive directors that forms part of the F2018 remuneration.

STI performance outcomes

MMI's performance under its STI performance scorecard for the 2017 financial year was as follows:

Key performance indicator	Weight	F2017 target	Actual	Achieved
Core headline earnings	20%	13% growth	0%	↓
Return on embedded value (excluding investment variances)	20%	12.2%	8.9%	↓
Value of new business	15%	R801m	R547m	↓
Expense efficiencies	10%	R200m	R219m	↑
Strategic objectives	35%	Exco assessment	3.4 (max 5.0)	↑

LTIP performance outcomes

Return on embedded value	Target	ROEV*
Notional shares issued in 2014 and vesting in 2017		
Annualised performance for the 36 months – 1 July 2014 to 30 June 2017	9.5%	9.0%
Notional shares issued in 2015 and vesting in 2018		
Annualised performance for the 24 months – 1 July 2015 to 30 June 2017	11.9%	8.6%
Notional shares issued in 2016 and vesting in 2019		
Annualised performance for the 12 months – 1 July 2016 to 30 June 2017	12.2%	4.4%

**Average annualised percentages, measured since inception of each tranche up to 30 June 2017.*

Based on the fact that the actual average ROEV on the performance units vesting on 1 October 2017 has exceeded the threshold set at the allocation date of these units, the performance units will vest at 88% of the allocated number of units.

LTIP table

The table below provides an overview of the LTIP awarded (on an executive director basis) during the year, forfeited and the indicative value of LTIP not yet vested (outstanding LTI). It further illustrates the cash value of LTIP delivered during the year.

Director	Award date	Vesting date	Opening number ('000)	Awarded during the year ('000)[1]	Award price per share	Forfeited ('000)	Settled ('000)	Closing LTIP ('000)	Cash received from settled LTIP (R'000)[2]	Indicative value of unvested LTIP (R'000)[3]
N Kruger	1/10/2016	1/10/2019	3 147	779	2220 – 2369	–	(536)	3 390	12 192	30 044
M Vilakazi	1/10/2016	1/10/2019	1 433	409	2220 – 2369	–	(190)	1 652	4 343	14 404

[1] Comprises new awards during the year, dividend units allocated to existing awards and deferred bonus units in terms of the STI deferral policy.

[2] Calculated using the number of LTIPs delivered (ie where the continued employment period was met) multiplied by the MMI share price on date of delivery (ie the value upon which PAYE was levied).

[3] Calculated using the number of unvested instruments multiplied by unvested LTIPs vesting probability (%) multiplied by the MMI share price (at 30 June 2017).

DISCLOSURE OF DIRECTORS' REMUNERATION

Details of the remuneration of executive and non-executive directors are provided on pages 100 to 101.

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.

Remuneration report (continued)

Part 3: Implementation report of remuneration policy for 2017 (continued)

DIRECTORS' EMOLUMENTS

	MONTHS		Fees R'000		Salary R'000		Performance bonus R'000	
Directors	**June 2017**	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**
Nicolaas Kruger	**12**	12	**–**	–	**6 206**	5 926	**3 148**	5 073
Mary Vilakazi	**12**	12	**–**	–	**3 080**	3 152	**1 990**	2 914
Ben van der Ross	**12**	12	**1 535**	1 761				
Fatima Jakoet	**12**	12	**968**	958				
Frans Truter	**12**	12	**2 062**	2 188				
Jabu Moleketi	**12**	12	**893**	937				
JJ Njeke	**12**	12	**1 809**	1 791				
Johan Burger[1]	**5**	12	**593**	1 470				
Johan van Reenen	**12**	12	**980**	970				
Khehla Shubane	**12**	12	**786**	778				
Leon Crouse[2]	**–**	9	**–**	555				
Louis von Zeuner	**12**	12	**1 914**	1 667				
Niel Krige	**12**	12	**626**	619				
Sizwe Nxasana[3]	**–**	3	**–**	109				
Syd Muller	**12**	12	**1 351**	1 067				
Vuyisa Nkonyeni	**12**	12	**658**	689				
Peter Cooper	**12**	7	**973**	364				
WM Krzychylkiewics[4]	**12**	–	**–**	–				
Stephen Jurisich[5]	**9**	–	**1 064**	–				
Preston Speckman[6]	**–**	–	**–**	–				
			16 212	15 923	**9 286**	9 078	**5 138**	7 987

	Long-term incentive payments R'000		Termination payments R'000		Pension fund R'000		Ad hoc fees R'000		Total R'000	
Directors	**June 2017**	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**
Nicolaas Kruger	**12 192**	11 247			**341**	338			**21 887**	22 584
Mary Vilakazi	**4 343**	–			**555**	555			**9 968**	6 621
Ben van der Ross							**72**	43	**1 607**	1 804
Fatima Jakoet							**36**	–	**1 004**	958
Frans Truter							**18**	–	**2 080**	2 188
Jabu Moleketi									**893**	937
JJ Njeke							**54**	17	**1 863**	1 808
Johan Burger[1]									**593**	1 470
Johan van Reenen							**18**	–	**998**	970
Khehla Shubane									**786**	778
Leon Crouse[2]									**–**	555
Louis von Zeuner							**68**	26	**1 982**	1 693
Niel Krige									**626**	619
Sizwe Nxasana[3]									**–**	109
Syd Muller							**72**	43	**1 423**	1 110
Vuyisa Nkonyeni									**658**	689
Peter Cooper							**36**	–	**1 009**	364
WM Krzychylkiewics[4]									**–**	–
Stephen Jurisich[5]							**36**	–	**1 100**	–
Preston Speckman[6,7]			**10 914**	10 000					**10 914**	10 000
	16 535	11 247	**10 914**	10 000	**896**	893	**410**	129	**59 391**	55 257

1 Resigned November 2016
2 Resigned March 2016
3 Resigned September 2015
4 Appointed July 2016
5 Appointed October 2016
6 Resigned 30 June 2015
7 In the current year, the amount relates to a restraint of trade payment. In the prior year, the amount related to a loss of office payment.

LTIP 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 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**
Units granted during year	**134**	**532**	**113**	**83**	**269**	**57**
Granted at prices ranging between (cents)	**2 220–2 369**	**2 220–2 295**	**2 220–2 295**	**2 220–2 369**	**2 220–2 295**	**2 220–2 295**
Units exercised/released during year	**(158)**	**(378)**	–	**(38)**	**(152)**	–
Market value of range at date of exercise/release (cents)	**2 250–2 369**	**2 250**	–	**2 281**	**2 281**	–
Units in force at 30 June 2017	**346**	**1 333**	**1 711**	**201**	**595**	**856**

INTRODUCTION ABOUT US PERFORMANCE GOVERNANCE REMUNERATION FINANCIAL STATEMENTS

Financial statements

Contents

MMI HOLDINGS Ltd
Group annual financial statements
30 June 2017

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

Directors' **responsibility and approval**

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

To enable the directors to meet these responsibilities:

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

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

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

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 106.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

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

JJ Njeke
Group chairman
Centurion, 5 September 2017

Nicolaas Kruger
Group chief executive officer
Centurion, 5 September 2017

Certificate by the **group company secretary**

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

Maliga Chetty
Group company secretary
Centurion, 5 September 2017

Independent auditor's report

TO THE SHAREHOLDERS OF MMI HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

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

What we have audited

MMI Holdings Limited's consolidated and separate financial statements set out on pages 128 to 283 comprise:

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

BASIS FOR OPINION

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

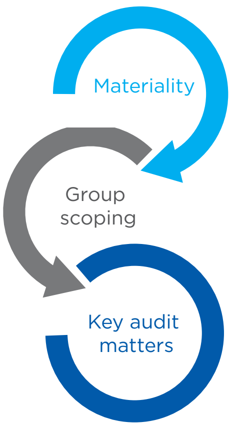
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

OUR AUDIT APPROACH

Overview



Overall group materiality

- R266 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope

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

Key audit matters

- Valuation of insurance contract liabilities.

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

Materiality

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

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

Overall group materiality	R266 million
How we determined it	5% of adjusted consolidated profit before tax
Rationale for the materiality benchmark applied	We chose an adjusted consolidated profit before tax benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Group and other companies in this industry is most commonly measured by users. The consolidated profit before tax was adjusted for once off items which include impairment losses, sale of business and actuarial basis changes as set out in note 1. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

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

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
VALUATION OF INSURANCE CONTRACT LIABILITIES The valuation of policyholder liabilities is considered a matter of most significance to the audit because of the judgmental assumptions inherent in the valuation. Assumptions are made for both economic and non-economic inputs into the valuation. Economic assumptions, such as discount rates, investment returns and inflation rates are based on available market information as at the financial year end. Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgement. These non-economic assumptions include future claims experience such as for mortality, morbidity, lapses and for other items such as future expenses. The valuation of the insurance contract liabilities of R107 billion (refer to the critical judgements and accounting estimates and note 8.1 to the financial statements), is based on the actuarial guidance contained in Standard of Actuarial Practice (SAP) 104.	We made use of our actuarial and data expertise and: • Performed audit procedures to verify the completeness and accuracy of data used for the valuations, including performing movement reconciliations for key data fields, as well as reconciling the policyholder data used in the valuation to the data on the administration systems or audited results; • Tested the actuarial valuation process through critically assessing the change in policyholder liabilities as explained by the analysis of surplus and liability build-ups. We considered reserves created manually outside of the models by testing the accuracy and methodology of the calculations and critically assessing management's assumptions related to future events against our knowledge of the business and the industry; • Assessed the reasonableness of economic assumptions through comparison to market observable data and non-economic assumptions through consideration of experience investigations and historical variances; and • Assessed the reasonableness of management's explanation of the sources of profits (analysis of surplus) as well as changes in the policyholder liability by considering our understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant actuarial committee approved changes.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, and the other information contained in the 2017 Integrated Report, which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor
Sunninghill

5 September 2017

Review report on **group embedded value**

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

INTRODUCTION

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

SCOPE OF REVIEW

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

CONCLUSION

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

BASIS OF ACCOUNTING AND RESTRICTION ON USE

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

PricewaterhouseCoopers Inc.

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

Report on **group embedded value**

AT 30 JUNE 2017

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

MMI Group Ltd required capital

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

Other covered business

A multiple of statutory CAR has been used.

Assets backing required capital

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

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

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

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

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

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

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

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

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

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

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

AT 30 JUNE 2017

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

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

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

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

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

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

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

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

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

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

AT 30 JUNE 2017

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

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

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

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

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

AT 30 JUNE 2017

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

A. VALUE OF NEW BUSINESS (VNB)

In determining the VNB for retail and traditional corporate business:

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

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

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

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

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

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

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

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

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

Changes in bases and assumptions

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

Assumptions

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

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

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

2 Risk-free returns are taken from an appropriate market-related, risk-free yield curve as at the valuation date. Appropriate risk premia are added to the risk-free yields in order to derive yields on other asset classes. Expected cash flows at each duration are discounted using yields appropriate to that duration. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

3 An inflation rate of 6.0% p.a. is used over the planning horizon (three years) where after the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.

4 The assumptions quoted in the table are representative rates derived at the 10-year point of the yield curves.

Non-economic

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

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

B. EXPECTED RETURN

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

C. RELEASE FROM THE COST OF REQUIRED CAPITAL

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

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

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

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

AT 30 JUNE 2017

E. OPERATING EXPERIENCE VARIANCES

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

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

F. DEVELOPMENT EXPENSES

Business development expenses within segments.

G. OPERATING ASSUMPTION CHANGES

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

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

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

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

I. INVESTMENT VARIANCES

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

J. ECONOMIC ASSUMPTION CHANGES

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

K. EXCHANGE RATE MOVEMENTS

The impact of foreign currency movements on International covered businesses.

L. TRANSFER OF BUSINESS TO NON-COVERED BUSINESS

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

M. CHANGES IN SHARE CAPITAL

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

SENSITIVITY OF THE IN-FORCE VALUE AND THE VNB

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

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

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

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

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

NATURE OF ACTIVITIES

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

CORPORATE EVENTS

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

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

PRESENTATION OF FINANCIAL STATEMENTS

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

SEGMENTAL INFORMATION

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

EV INFORMATION

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

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

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

CORPORATE GOVERNANCE

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

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

RESULTS OF OPERATIONS

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

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

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

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

SHARE CAPITAL

Share issue

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

Share options

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

MMIGL preference shares

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

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

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

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

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

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

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

Preference share dividends

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

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

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

SHAREHOLDERS

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

DIRECTORATE, SECRETARY AND AUDITOR

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

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

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

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

DIRECTORS' INTEREST

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

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

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

Directors' report (continued)

DIRECTORS' SHAREHOLDING

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

	Direct Beneficial '000	Indirect Beneficial '000	Total 2017 '000	Total 2016 '000
Listed				
Executive directors	64	6 276	6 340	6 340
Non-executive directors	434	2 134	2 568	2 586
	498	8 410	8 908	8 926

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

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

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

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

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

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

DIRECTORS' EMOLUMENTS

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

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

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

BORROWING POWERS

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

EVENTS AFTER YEAR-END

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

Statutory excess

AT 30 JUNE 2017

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

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

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

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

Statement of **financial position**

AT 30 JUNE 2017

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

Income statement

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **comprehensive income**

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **changes in equity**

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **cash flows**

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(12 702)**	(3 740)	28.1
Interest received	**13 750**	12 345	
Dividends received	**3 992**	4 122	
Income tax paid	**(3 463)**	(3 017)	28.2
Interest paid	**(991)**	(868)	28.3
Net cash inflow from operating activities	**586**	8 842	
Cash flow from investing activities			
Acquisition of subsidiaries	**(23)**	–	29
Disposal of non-current assets held for sale	**470**	–	
Acquisition of associates and joint ventures	**(93)**	(485)	
Disposal of associates	**38**	13	
Loans repaid by related parties	**75**	–	
Loans advanced to related parties	**(42)**	(77)	
Dividends from associates	**16**	–	
Purchase of owner-occupied properties	**(552)**	(33)	
Proceeds from disposal of owner-occupied properties	**8**	12	
Purchase of property and equipment	**(139)**	(303)	
Proceeds from disposal of property and equipment	**20**	48	
Purchase of intangible assets	**(163)**	(296)	
Proceeds from sale of subsidiary	**97**	70	
Net cash outflow from investing activities	**(288)**	(1 051)	
Cash flow from financing activities			
Other equity transactions	**(22)**	4	
Decrease of treasury shares held on behalf of contract holders	**(124)**	35	
Transactions with minority shareholders	**15**	(433)	
Proceeds from borrowings	**7 970**	5 280	28.4
Repayment of borrowings	**(7 423)**	(7 418)	28.4
Subordinated call notes issued	**–**	1 250	28.4
Subordinated call notes repaid	**–**	(1 000)	28.4
Dividends paid to equity holders	**(2 456)**	(2 475)	
Dividends paid to non-controlling interest shareholders	**(53)**	(60)	
Net cash outflow from financing activities	**(2 093)**	(4 817)	
Net cash flow	**(1 795)**	2 974	
Cash resources and funds on deposit at beginning	**29 148**	26 174	
Cash resources and funds on deposit at end	**27 353**	29 148	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**27 353**	29 148	6.6
	27 353	29 148	

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

Fair value

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

Other measurement basis

- Insurance contracts, investment contracts with DPF and reinsurance contracts valued using the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- Short-term insurance contracts valued using Directive 169 of 2011 – Prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-term insurers
- Employee benefit obligations measured using the projected unit credit method
- Investments in associates measured using the equity method of accounting or carried at fair value
- Non-current assets and liabilities held for sale measured at the lower of carrying value or fair value less cost to sell

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

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

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

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

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

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

Improvements project amendments

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

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

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

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

Critical **judgements and accounting estimates**

PREPARATION OF FINANCIAL STATEMENTS

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

APPLICATION OF ACCOUNTING POLICIES

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

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10 the group considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the group or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Provision for current and deferred tax – note 13
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 7, 10 and 12
- Valuation assumptions for financial instruments – Annexure E

Segmental report

FOR THE YEAR ENDED 30 JUNE 2017

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

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

The client-centric reporting view reflects the following segments:

- **Momentum Retail:** Momentum Retail offers a wide range of financial solutions to middle and affluent market segments. Our product range spans all major insurance lines (life, disability, health, motor, property, and all-risks) and a wide range of savings and investment products. We differentiate our business through the quality of our advice channels and our commitment to high levels of client engagement to encourage our clients to make choices that optimise their financial and physical wellness. Our most popular product solutions are retirement savings and life insurance. Momentum Retail is closely associated with Multiply, our client engagement programme. Clients who have Multiply active on their policies enjoy premium discounts, partner rewards and access to personal financial management tools.

- **Metropolitan Retail:** Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments. Metropolitan Retail's most popular products include funeral plans, savings policies, underwritten life cover policies, and annuities. Our funeral plans are low sum insured whole life policies designed to pay for funeral costs. To extend our distribution channels and expand our solutions basket, Metropolitan recently partnered with African Bank to offer insurance and lending products to the existing Metropolitan client base.

- **Corporate and Public Sector:** Corporate and Public Sector provides insurance, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market. We also have a strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions.

- **International:** MMI International operates in the rest of Africa, India and the United Kingdom. We offer a wide range of solutions in these areas, with a focus on life, health and short-term insurance products. In Africa, life insurance is offered in nine countries and health insurance offered in seven as well as in India. Our Multiply wellness programme is only active in India at present, where it complements the health insurance offering.

- **Shareholder Capital:** The Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and some costs not allocated to operating segments (eg certain holding company expenses).

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

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

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

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

Reconciliation of management information to IFRS

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

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

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

2 The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R22 978 million, and the total of such non-current assets located in other countries is R859 million.

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

INTRODUCTION

ABOUT US

PERFORMANCE

GOVERNANCE

REMUNERATION

FINANCIAL STATEMENTS

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

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

[2] The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 089 million, and the total of such non-current assets located in other countries is R1 175 million.

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

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

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

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

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

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

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

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

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

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

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

Notes to the **financial statements**

FOR THE YEAR ENDED 30 JUNE 2017

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

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

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

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

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

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

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

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

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

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

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

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

ACC POLICY Annex D4

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

Critical accounting estimates and judgements

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

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

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

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

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

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

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

Critical accounting estimates and judgements

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

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

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

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

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

			2017 Rm	2016 Rm
2	**INTANGIBLE ASSETS** *continued*			
2.4	**Brands**			
	Cost		**1 208**	1 208
	Accumulated amortisation		**(384)**	(322)
	Accumulated impairment		**(18)**	–
	Carrying amount		**806**	886
	Carrying amount at beginning		**886**	948
	Amortisation charges		**(62)**	(62)
	Impairment charges		**(18)**	–
	Carrying amount at end		**806**	886
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan brand – Metropolitan Retail (Metropolitan/Momentum merger)	2031	**722**	776
	Momentum Namibia brand – International	2027	**18**	20
	Guardrisk brand – Corporate and Public Sector	2034	**66**	70
	CareCross brand – Corporate and Public Sector		**–**	20
			806	886
	The CareCross brand of R18 million (Corporate and Public Sector) was written off during the current year as it will no longer be used.			
2.5	**Broker network**			
	Cost		**490**	490
	Accumulated amortisation		**(209)**	(187)
	Carrying amount		**281**	303
	Carrying amount at beginning		**303**	337
	Amortisation charges		**(22)**	(34)
	Carrying amount at end		**281**	303
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Guardrisk (non-life) – Corporate and Public Sector	2029	**213**	231
	Guardrisk (life) – Corporate and Public Sector	2034	**68**	72
			281	303
2.6	**Deferred acquisition costs on long-term investment business**			
	Carrying amount at beginning		**2 202**	2 092
	Additions		**371**	347
	Amortisation charges		**(372)**	(237)
	Impairment charges		**(3)**	–
	Exchange differences		**(2)**	–
	Carrying amount at end		**2 196**	2 202
2.7	**Deferred acquisition costs on short-term insurance business**			
	Carrying amount at beginning		**78**	61
	Additions		**25**	69
	Amortisation charges		**(15)**	(52)
	Carrying amount at end		**88**	78

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

FOR THE YEAR ENDED 30 JUNE 2017

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

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

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

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

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

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

		ACC POLICY Annex D5	2017 Rm	2016 Rm
3	**OWNER-OCCUPIED PROPERTIES**			
	Owner-occupied properties – at fair value		**4 105**	3 112
	Historical carrying value – cost model		**3 053**	2 123
	Fair value at beginning		**3 112**	3 030
	Additions		**552**	33
	Disposals		**(8)**	(12)
	Revaluations		**144**	135
	Depreciation charges		**(77)**	(75)
	Impairment charges		**(28)**	(3)
	Transfer from investment properties		**416**	–
	Exchange differences		**(6)**	4
	Fair value at end		**4 105**	3 112

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

Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements

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

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

Capitalisation and discount rates (2016: 9.0% – 10.0% and 14.0% – 15.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

ACC POLICY
Annex D6

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

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

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

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

Critical accounting estimates and judgements

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

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

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

ACC POLICY Annex D2.2 and 2.3

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

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

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

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

6 FINANCIAL ASSETS

ACC POLICY
Annex D7 and 9

The group classifies its financial assets into the following categories:

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

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

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

General

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

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

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

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

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

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

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:

- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

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

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

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

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

Offsetting

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

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

[1] No offsetting in current and prior year.

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

Terms and conditions of material loans

- The R271 million (2016: R285 million) loan to empowerment partners relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 December 2017 (after extending it under the same terms by six months in the current year).
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 11% (2016: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.

		2017 Rm	2016 Rm
6	**FINANCIAL ASSETS** *continued*		
6.5	**Insurance and other receivables**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 292**	4 243
	Insurance contract holders	**2 302**	2 499
	Investment contract holders with DPF	**225**	188
	Cell captives	**1 119**	930
	Less: provision for impairment	**(74)**	(53)
	Due from reinsurers	**720**	679
	Other	**81**	25
	Total included in financial assets	**4 373**	4 268
	Accelerated rental income (refer to note 4)	**248**	229
	Total insurance and other receivables	**4 621**	4 497
	Current	**4 368**	4 355
	Non-current	**253**	142
		4 621	4 497

Impairment of receivables arising from insurance contracts and investment contracts with DPF

Impairment is mainly due to expected payment defaults.

		2017 Rm	2016 Rm
6.6	**Cash and cash equivalents**		
	Bank and other cash balances	**11 414**	9 809
	Funds on deposit and other money market instruments – maturity < 90 days	**15 939**	19 339
		27 353	29 148

6 FINANCIAL ASSETS *continued*

6.7 Credit risk

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

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

Credit quality

The assets in the group's maximum exposure table above are analysed in the table on the following page, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Moody's, S&P and GCR. Refer to Annexure C for the definitions used in this section.

6 FINANCIAL ASSETS *continued*

6.7 Credit risk *continued*

Credit quality *continued*

2017	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies[1]	31 484	7 992	4 284	115	110	–	340	44 325
Debt securities – other debt instruments	9 402	17 855	22 272	1 683	2 068	38	2 002	55 320
Cash and cash equivalents and funds on deposit	3 255	12 902	31 325	2 745	2 060	32	1 650	53 969
Derivative financial instruments	499	167	1 715	–	–	–	58	2 439
Held-to-maturity	36	–	–	–	–	–	361	397
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	6 984	6 984
Other receivables	–	–	–	–	–	–	4 217	4 217
Unit-linked investments[2]	–	–	–	–	–	–	24 675	24 675
Past due or impaired assets	–	–	–	–	–	–	168	168
	44 676	38 916	59 596	4 543	4 238	70	40 455	192 494
2016								
Debt securities – stock and loans to government and other public bodies	36 188	9 042	1 217	112	–	–	330	46 889
Debt securities – other debt instruments	9 961	34 791	12 613	2 470	1 929	459	2 285	64 508
Cash and cash equivalents and funds on deposit	1 037	38 624	3 841	2 656	2	68	1 617	47 845
Derivative financial instruments	288	1 494	125	–	–	–	70	1 977
Held-to-maturity	78	–	–	–	–	–	44	122
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	7 185	7 185
Other receivables	–	–	–	–	–	–	4 243	4 243
Unit-linked investments[2]	–	–	–	–	–	–	22 070	22 070
Past due or impaired assets	–	–	–	–	–	–	205	205
	47 552	83 951	17 796	5 238	1 931	527	38 049	195 044

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

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

6 **FINANCIAL ASSETS** *continued*

6.7 **Credit risk** *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the group has reinsured of R720 million (2016: R679 million) (included in note 6.5) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

	2017		2016	
Reinsurer	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	**32%**	**AA**	22%	AA
General Cologne Re	**27%**	**AA**	17%	AA
Hannover Re	**5%**	**AA**	4%	AA
RGA Re	**8%**	**AA**	5%	AA
Munich Re	**26%**	**AA**	16%	AA
Other	**2%**	**A**	36%	A
	100%		100%	

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

2017	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	**152**	**6**	**18**	**1**	**177**
Accounts receivable	**1 998**	**317**	**99**	**–**	**2 414**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**536**	**101**	**87**	**13**	**737**
	2 686	**424**	**204**	**14**	**3 328**
2016					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	82	64	44	21	211
Accounts receivable	1 895	502	116	–	2 513
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	482	164	5	19	670
	2 459	730	165	40	3 394

Financial assets designated at fair value through income

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

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

6 FINANCIAL ASSETS *continued*

6.8 Financial assets hierarchy

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

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

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

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

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

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

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

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

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

FOR THE YEAR ENDED 30 JUNE 2017

6 FINANCIAL ASSETS *continued*

6.8 Financial assets hierarchy *continued*

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

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

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

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

6.8 Financial assets hierarchy *continued*

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

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

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

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

Calculation of fair value

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

ACC POLICY
Annex D10

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

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

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

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

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

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

Refer to note 10 for the assumptions and estimates used.

ACC POLICY
Annex D10

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

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

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

Refer to note 10 for the assumptions and estimates used.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

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

The assumptions are set as follows:

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

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

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

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2016 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2016 for MMIGL retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2011 to 2016 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2016. The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2016. Mortality assumptions for employee benefits contracts within the Corporate and Public Sector segment are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2016. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

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

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended November 2016 for Metropolitan Retail business and December 2016 for Momentum Retail business.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended March 2017 for Metropolitan Retail business and December 2016 for Momentum Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

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

Expenses

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

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

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate + 3.5% (2016: + 3.5%)
  - Property rate: gilt rate + 1.0% (2016: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2016: + 0.5%)
  - Cash rate: gilt rate - 1.0% (2016: - 1.0%)
- An inflation rate of 6.0% p.a. for ZAR-denominated business was used to project future renewal expenses over the planning horizon (three years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is assumed in respect of retail business within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2017	2016
RDR	**11.7%**	11.4%
Gilt rate – risk-free investment return	**9.4%**	9.2%
Assumed investment return for individual smoothed bonus business	**11.6%**	11.4%
Renewal expense inflation rate	**6.8%**	7.4%

Future bonuses

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

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110)

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

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

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

The following instruments have been valued by the model:

Instrument	2017 Price (% of nominal)	2017 Volatility	2016 Price (% of nominal)	2016 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.0%**	**18.4%**	6.7%	23.0%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**1.0%**	**22.3%**	2.0%	27.5%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0476 (2016: 1.0481)	**6.8%**	**17.4%**	8.5%	21.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.0%**	**22.6%**	8.4%	25.4%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**12.9%**	**21.4%**	14.4%	23.9%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.3195 (2016: 1.3278)	**16.4%**	**20.9%**	18.1%	23.2%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**1.5%**	**28.1%**	2.4%	30.1%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{10}$ of spot	**6.9%**	**27.6%**	9.6%	29.2%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 5.003 (2016: 4.3983)	**29.1%**	**27.8%**	29.1%	28.0%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	**5.7%**	**13.2%**	6.7%	15.2%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.3%**	**N/A**	0.4%	N/A

Tax

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

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Basis and other changes

Assumptions and methodologies used in the FSV basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur. An exception to this is impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business, which is transferred to investment stabilisation liabilities.

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

Sensitivity analysis

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

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

2017	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	**58 538**	**57 419**	**57 609**	**58 978**	**56 325**	**59 274**
Annuities (retail and employee benefits)	**41 694**	**41 536**	**41 560**	**41 692**	**42 142**	**43 581**
Employee benefits business (excluding annuities)	**3 995**	**3 995**	**3 995**	**3 995**	**3 995**	**4 013**
Investment with DPF business	**24 275**	**24 249**	**24 252**	**24 261**	**24 247**	**24 473**
Investment business	**224 224**	**224 165**	**224 179**	**224 194**	**224 156**	**226 212**
Subtotal	**352 726**	**351 364**	**351 595**	**353 120**	**350 865**	**357 553**
Cell captive and short-term business	**19 288**					
Total	**372 014**	**351 364**	**351 595**	**353 120**	**350 865**	**357 553**
2016						
Insurance business						
Retail insurance business (excluding annuities)	61 310	60 185	60 527	61 599	59 278	61 629
Annuities (retail and employee benefits)	40 133	39 963	40 014	40 133	40 593	41 510
Employee benefits business (excluding annuities)	3 683	3 683	3 683	3 683	3 686	3 693
Investment with DPF business	25 133	25 094	25 117	25 136	25 111	25 379
Investment business	221 276	221 265	221 272	221 276	221 275	223 012
Subtotal	351 535	350 190	350 613	351 827	349 943	355 223
Cell captive and short-term business	20 543					
Total	372 078	350 190	350 613	351 827	349 943	355 223

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

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis *continued*

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

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

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2016: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R123 million (2016: R126 million) in the before-tax earnings of the group.

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

11 FINANCIAL LIABILITIES

ACC POLICY
Annex D11 and 23

The group classifies its financial liabilities into the following categories:

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

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

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

11 FINANCIAL LIABILITIES *continued*

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

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

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

11.2.1 Cumulative redeemable convertible preference shares

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

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

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

11.2.2 Property development loans

Included in property development loans are:

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

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

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

11.4 Financial liabilities hierarchy

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

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

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	**1 064**	**232 335**	**35**	**233 434**
Financial liabilities designated at fair value through income	**24 744**	**12 307**	**280**	**37 331**
Collective investment scheme liabilities	**24 744**	**11**	**206**	**24 961**
Subordinated call notes	**–**	**3 602**	**–**	**3 602**
Carry positions	**–**	**7 676**	**–**	**7 676**
Preference shares	**–**	**1 018**	**–**	**1 018**
Other borrowings	**–**	**–**	**74**	**74**
Derivative financial liabilities – held for trading	**46**	**1 781**	**–**	**1 827**
	25 854	**246 423**	**315**	**272 592**
2016				
Investment contracts designated at fair value through income	1 042	231 672	76	232 790
Financial liabilities designated at fair value through income	25 987	12 035	352	38 374
Collective investment scheme liabilities	25 987	147	234	26 368
Subordinated call notes	–	3 557	–	3 557
Carry positions	–	7 313	–	7 313
Preference shares	–	1 018	–	1 018
Other borrowings	–	–	118	118
Derivative financial liabilities – held for trading	29	2 068	–	2 097
	27 058	245 775	428	273 261

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

11 **FINANCIAL LIABILITIES** *continued*

11.4 **Financial liabilities hierarchy** *continued*

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

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

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

11 FINANCIAL LIABILITIES *continued*

11.4 Financial liabilities hierarchy *continued*

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

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

Calculation of fair value

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

ACC POLICY
Annex D10

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

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

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

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

Creation of deferred tax assets and recognition of deferred tax liabilities

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

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

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

Critical accounting estimates and judgements

The group is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made.

ACC POLICY
Annex D19

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

Details of the plans

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

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

Key valuation assumptions for the plans

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

Income statement movement and future contributions

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

	2017 Rm	2016 Rm
14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*		
14.2 Employee benefit obligations		
14.2.1 Post-retirement medical benefits	**234**	328
14.2.2 Cash-settled arrangements	**425**	500
Other employee benefit obligations	**675**	624
Total employee benefit obligations	**1 334**	1 452
Current	**545**	568
Non-current	**789**	884
	1 334	1 452

Employee benefit expenses are included in the income statement. Refer to note 23.

	2017 Rm	2016 Rm
14.2.1 Post-retirement medical benefits		
Balance at beginning – unfunded	**328**	322
Current service costs	**2**	2
Past service cost	**(21)**	–
Interest expense	**30**	28
Actuarial gains – other comprehensive income	**(21)**	(6)
Employer contributions	**(1)**	(18)
Benefits paid and transferred	**(83)**	–
Balance at end – unfunded	**234**	328
Current	**25**	81
Non-current	**209**	247
	234	328

Valuation methodology

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

The key valuation assumptions are:

			Change in value of liability	
Assumptions	**Base assumption**	**Change in significant assumption**	**Decrease in significant assumption Rm**	**Increase in significant assumption Rm**
Healthcare cost inflation rate				
Defined benefit fund	**9% (2016: 8%)**	**3%**	**(22)**	**25**
Valuation rate of interest/ discount rate	**9% (2016: 10%)**			
Administration fee inflation	**8% (2016: 8%)**			
Normal retirement age	**60 – 62 years**			
Mortality				
Pre-retirement	**SA 72-77 ultimate, with female rates equal to 70% of male rates**			
Post-retirement	**PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years**			

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

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

Momentum share schemes

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

Momentum Sales Scheme (MSS)

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

MMI share schemes

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

MMI Long-term Incentive Plan (MMI LTIP)

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

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

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

Momentum Sales Phantom Shares (MSPS)

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

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

14.2 Employee benefit obligations *continued*

14.2.2 Cash-settled arrangements *continued*

MMI Outperformance Plan (MMI OP)

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

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

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

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

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

14.2 Employee benefit obligations *continued*

14.2.2 Cash-settled arrangements *continued*

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

Market value of range at date of exercise/release

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

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

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

Valuation assumptions relating to outstanding units at 30 June:

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

14 **EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*

14.2 **Employee benefit obligations** *continued*

14.2.2 ***Cash-settled arrangements*** *continued*

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

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

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

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

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

As at 30 June 2017, the estimated vesting percentage of performance units issued October 2014 (vesting October 2017; measured against a GDP growth benchmark) is 87% of face value. The estimated vesting percentage of performance units issued in subsequent periods are 60% of face value for vesting in October 2018, and 30% of face value for vesting in October 2019.

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

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

14.2 Employee benefit obligations *continued*

14.2.2 Cash-settled arrangements *continued*

Outperformance plan (OPP)

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

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

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

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

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

Tranches vested during the current or prior year

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

Share-based payment expense

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

ACC POLICY
Annex D21

15 SHARE CAPITAL AND SHARE PREMIUM

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

Authorised share capital of MMI Holdings Ltd

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

Authorised share capital of MMIGL

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

Issued share capital

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

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

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

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

Preference shares

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

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

Dividends

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

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

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

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

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

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

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

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

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

ACC POLICY Annex D6, 7 and 11

		2017 Rm	2016 Rm
20	**NET REALISED AND FAIR VALUE GAINS**		
	Financial assets	(138)	11 356
	Designated at fair value through income	(69)	10 516
	Derivative financial instruments – (losses)/gains	(35)	744
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	(34)	96
	Financial liabilities		
	Designated at fair value through income	–	41
	Investment property	206	306
	Valuation gains	230	354
	Change in accelerated rental income	(24)	(48)
	Other investments	115	121
		183	11 824
21	**NET INSURANCE BENEFITS AND CLAIMS** (ACC POLICY Annex D10)		
	Long-term insurance contracts	20 602	21 177
	Death and disability claims	10 217	9 647
	Maturity claims	3 839	5 082
	Annuities	3 523	3 386
	Surrenders	2 793	2 898
	Terminations, disinvestments and withdrawal benefits	230	164
	Health and capitation benefits incurred	957	1 032
	Short-term insurance benefits incurred	5 080	5 043
	Short-term insurance change in provision for outstanding claims	(3)	250
	Investment contracts with DPF	3 873	5 030
	Death and disability claims	82	63
	Maturity claims	936	878
	Annuities	320	194
	Surrenders	418	322
	Terminations, disinvestments and withdrawal benefits	2 117	3 573
		30 509	32 532
	Amounts recovered from reinsurers	(6 068)	(5 923)
		24 441	26 609
	Included in the above is R7 047 million (2016: R6 489 million) claims and R4 717 million (2016: R3 924 million) reinsurance relating to cell captives.		
22	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES** (ACC POLICY Annex D4, 5 and 7)		
	Depreciation	233	253
	Owner-occupied properties (refer to note 3)	77	75
	Equipment	156	178
	Amortisation (refer to note 2)	917	993
	Value of in-force business acquired	317	324
	Customer relationships	368	424
	Brands	62	62
	Broker network	22	34
	Computer software	148	149
	Impairment of intangible assets (refer to note 2)	417	158
	Goodwill	100	104
	Customer relationships	84	–
	Brands	18	–
	Computer software	215	54
	Impairment of owner-occupied property (refer to note 3)	28	3
	Impairment of financial assets – Loans and receivables	70	1
		1 665	1 408

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

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

FOR THE YEAR ENDED 30 JUNE 2017

ACC POLICY
Annex D13

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

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

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

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

29 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2017

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

Business combinations for the year ended 30 June 2016

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

30 RELATED PARTY TRANSACTIONS

30.1 Major shareholders and group companies

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

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

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

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

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

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

30.2 Transactions with directors and key management personnel and their families

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

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

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

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

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

30 RELATED PARTY TRANSACTIONS *continued*

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

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

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

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

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

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

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

30.4 Contract administration

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

30.5 Transactions with associates

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

30.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

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

30.7 Post-employment benefit plans

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

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

32 CONTINGENT LIABILITIES

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

ACC POLICY
Annex D18

Uncertain tax position

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

33 EVENTS AFTER THE REPORTING PERIOD

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

34 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The group is currently exposed to the following risks:

Insurance risk: Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or a change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary.

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

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

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

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

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

35 CAPITAL MANAGEMENT

35.1 Capital management objectives

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

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

35.2 Capital management framework

The capital management framework rests on the following three pillars:

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

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

35.3 Overview of capital management developments

35.3.1 Capital held in the holding company

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

35.3.2 Capital allocated to the operating subsidiaries

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

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

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk.

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

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

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

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

35 CAPITAL MANAGEMENT *continued*

35.3 Overview of capital management developments *continued*

35.3.3 Statutory capital requirement

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

The statutory surplus and CAR are determined in accordance with the requirements of the FSB and the standards and practice notes as issued by ASSA. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. Although CAR is only a statutory requirement for South African life insurance companies, it is also applied to the non-South African life insurance companies in the group as a measure of prudence. The regulatory capital requirements of insurance companies outside South Africa are generally less stringent than South African CAR requirements.

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

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

35.3.4 Regulatory capital developments

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

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

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

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

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

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

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

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

35 CAPITAL MANAGEMENT *continued*

35.3 Overview of capital management developments *continued*

35.3.5 Issuance of subordinated debt

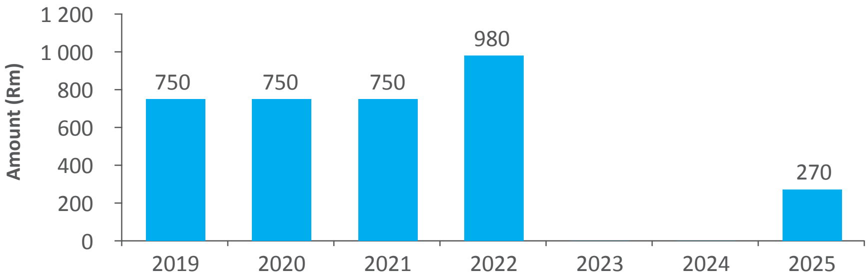
The table below shows a summary of the MMIGL subordinated, unsecured callable notes currently in issue at 30 June 2017:

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

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

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

Subordinated debt maturity profile – 30-Jun-2017



35.4 Sources of capital utilised

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

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

35.5 Regulatory capital position

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

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

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

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

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

- The statutory balance sheet was more affected by a yield-down stress than a yield-up stress, a reversal in direction from June 2016.
- Investment risk increased from a longer projection term for upper market business, lower funding levels, and moving from yield-up to yield-down.
- Credit risk increase due to the sovereign credit downgrade, and including concentration risk for ex-Met business. Partially offset by SAP104 change.
- Release of discretionary margins against mortality risk.

35 CAPITAL MANAGEMENT *continued*

35.6 Economic capital

The economic capital requirement for MMIGL is based on an internal capital projection model (using stochastic modelling techniques), while the other life insurance companies use a multiple of the statutory CAR to determine the economic capital requirement. The strategic operating subsidiaries of MMI Holdings Ltd hold sufficient capital as required for the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (ie to look through the economic cycle).

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

35.7 Credit ratings

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

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

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

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

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

36 INSURANCE AND INVESTMENT BUSINESS

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

2017	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	43 320	23 910	375	67 605
Individual contracts with DPF	35 097	6 064	356	41 517
Smoothed bonus business	25 921	6 064	356	32 341
Conventional with-profit business	9 176	–	–	9 176
Group contracts with DPF	8 223	17 846	19	26 088
Smoothed bonus business	–	16 695	–	16 695
Smoothed bonus business – fully vesting	–	896	–	896
With-profit annuity business	8 223	255	19	8 497
Market-related business	18 305	157	212 258	230 720
Individual market-related business	16 750	157	140 255	157 162
Group market-related business	1 555	–	72 003	73 558
Other business	42 602	208	11 591	54 401
Non-profit annuity business	33 719	–	1 870	35 589
Guaranteed endowments	30	–	9 623	9 653
Other non-profit business	8 853	208	98	9 159
Subtotal	104 227	24 275	224 224	352 726
Liabilities in cell captive and short-term business	10 015	63	9 210	19 288
Total contract holder liabilities	114 242	24 338	233 434	372 014

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with DPF

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the FSB to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MMIGL has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the MMI Holdings Ltd board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, BSAs are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.
- The major classes of smoothed bonus business are:
  - Metropolitan Retail individual smoothed bonus business (open to new business).
  - Momentum Employee Benefits smoothed bonus business (open to new business).
  - Momentum Employee Benefits with-profit annuity business (open to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
  - Momentum Retail fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

Market-related business

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

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

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

Market-related business *continued*

- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

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

Other non-profit business

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

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 10.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

36.2 Long-term insurance risk

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

Long-term insurance risk management

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

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

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

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

36.2.1 Demographic risks

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

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

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

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting demographic risks for individual insurance business:
  - The most significant factors that could substantially change the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
  - Economic conditions can potentially affect retrenchment claims as well as morbidity claims where benefits are determined in terms of the ability to perform an occupation.
  - Medical advances can potentially affect the size and severity of medical claims (including critical illness claims).
  - Anti-selection, such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
  - The effect of selective terminations, which means policyholders are less likely to terminate voluntarily if the cover is more likely to be needed in the foreseeable future.
  - Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.
- Demographic risks are managed as follows:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the group to adjust these charges so that on average they reflect actual mortality experience reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

- All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
- Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
- Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
- Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
- Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.

  Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.

  Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place for fully underwritten and limited underwriting products, but excludes funeral products which are not reinsured.
- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MMIGL's catastrophe reinsurance cover for the current financial year is R750 million (2016: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

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

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

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - Life insurance (mostly lump sum, but including some children and spouse's annuities)
  - Disability insurance (lump sum and income protection)
  - Dread disease cover
  - Continuation of insurance option.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

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

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

Lives covered by scheme	2017	2016
0 – 1 000	**9 190**	8 661
1 001 – 5 000	**284**	320
> 5 000	**131**	122
Subtotal	**9 605**	9 103
Cell captive business	**79**	74
Total	**9 684**	9 177

Annuity business

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

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

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

Permanent health insurance business

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

36.2.2 Contract persistency risk

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

Factors affecting the risk:

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

How risks are managed:

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.3 Retrenchment risk

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

36.2.4 Expense risk

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

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

36.2.5 Business volume risk

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

36.3 Short-term insurance risk

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

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

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

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.3 Short-term insurance risk *continued*

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

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

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

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

37 GUARDRISK

Introduction

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

Nature of business

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

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

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

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

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

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

37 **GUARDRISK** *continued*

Nature of business *continued*

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

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

Risk management

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

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

Cell captive arrangements

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

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

Contingency policy business

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

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

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

Risk participation with cell shareholders

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

Terms and conditions of non-life insurance contracts

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

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

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

37 GUARDRISK *continued*

Risk management *continued*

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

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

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

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

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

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

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

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

Terms and conditions of life insurance contracts

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

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

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

General risk overview

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

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

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

37 GUARDRISK *continued*

Risk management *continued*

Reinsurance

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

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

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

Concentrations of insurance risk

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

The collective investment schemes not consolidated are included in Annexure B as Collective investment schemes and Investments in associates designated at fair value through income.

39 LIQUIDITY RISK

Liquidity risk governance

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

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

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 86% (2016: 86%) of the liabilities of the group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed policyholder benefits

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

Non-profit annuities' policyholder benefits

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

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon the contractual claim (maturity and risk benefit claim) of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

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

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

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

39 **LIQUIDITY RISK** *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

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

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

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

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares issued by MMI Holdings Ltd, the carry positions, the subordinated call notes issued by MMIGL and the cumulative redeemable preference shares issued by MMI Strategic Investments (Pty) Ltd.

The group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restrict exposure to high-quality assets.

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

Liquidity profile of assets

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

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

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

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

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

39 **LIQUIDITY RISK** *continued*

Maturity profile of liabilities

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

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

39 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

Notes to the maturity profile of liabilities table:

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

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

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

[4] Other payables exclude premiums paid in advance and deferred revenue liabilities.

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

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected DCFs, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 10.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 28 June 2020 (maturity date extended from 27 June 2017 in the current year). It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost:

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

39 **LIQUIDITY RISK** *continued*

Maturity profile of liabilities *continued*

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

39 **LIQUIDITY RISK** *continued*

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated statement of financial position. The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

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

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

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

40 MARKET RISK

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

Financial instruments held by the group are subject to the components of market risk as follows:

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

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

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

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

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

Furthermore, MMI is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

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

40 MARKET RISK *continued*

Market risk governance

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

The executive BSM is responsible for the group's market risk management, with the Board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

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

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

Market risk management per product

Individual and group contracts with DPF

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. Separate investment portfolios are managed for each product.

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

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with DPF and continuous guarantees

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

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

40 MARKET RISK *continued*

Market risk management per product *continued*

Market-related/unit-linked business

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

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

Individual contracts offering investment guarantees

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

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

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

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

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

Non-profit annuity business

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

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds or bank-issued matching structures. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R8 million (2016: R15 million) for MMIGL.

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

40 MARKET RISK *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

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

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

Other non-profit business

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

Shareholder cash flows in respect of individual contracts with investment components

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

40.1 Market risk management per risk factor

Equity risk

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

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

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

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long-term Insurance Act, 52 of 1998;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the MMI Private Equity Investments Committee, represented by specialist investment professionals and independent MMI representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to sensitivity analysis in note 40.5.

40 **MARKET RISK** *continued*

40.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the group's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest-bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

Instrument class 2017	Carrying value Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
Designated at fair value through income					
Debt securities	**99 645**	**34 355**	**63 320**	**1 970**	**7.0**
Funds on deposit and other money market instruments	**26 616**	**21 505**	**5 070**	**41**	**7.2**
Derivative financial assets	**2 439**	**–**	**2 439**	**–**	**N/A**
Derivative financial liabilities	**(1 827)**	**–**	**(1 827)**	**–**	**N/A**
Held-to-maturity	**397**	**36**	**361**	**–**	**19.9**
Cash and cash equivalents	**27 353**	**21 947**	**3 245**	**2 161**	**4.9**
Loans and receivables	**7 077**	**2 699**	**1 247**	**3 131**	**6.6**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 292**	**–**	**24**	**4 268**	**–**
	165 992	**80 542**	**73 879**	**11 571**	
2016					
Designated at fair value through income					
Debt securities	111 397	38 267	69 873	3 257	7.3
Funds on deposit and other money market instruments	18 697	15 452	3 160	85	7.3
Derivative financial assets	1 977	–	1 977	–	N/A
Derivative financial liabilities	(2 097)	–	(2 097)	–	N/A
Held-to-maturity	122	–	122	–	7.1
Cash and cash equivalents	29 148	23 658	3 496	1 994	4.8
Loans and receivables	7 390	2 418	1 394	3 578	8.7
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	–	130	4 113	–
	170 877	79 795	78 055	13 027	

Liability exposure to interest rates is reflected in note 11.

40 MARKET RISK *continued*

40.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the group's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the South African Reserve Bank.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table below as the look-through principle was not applied.

Assets and liabilities denominated in Namibian dollar, Lesotho maloti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not represent significant currency risk for the group. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the group, are included in the group's statement of financial position at 30 June:

2017	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*17.0068*	*13.0909*	*14.9254*			
Investment securities							
Designated at fair value through income							
Equity securities	486	1 631	13 089	1 594	1 648	1 403	19 851
Debt securities	973	122	2 783	1 506	–	82	5 466
Funds on deposit and other money market instruments	489	–	6	–	–	70	565
Unit-linked investments	13	2 139	36 749	1 398	6	90	40 395
Investments in associates	–	24	376	–	–	–	400
Derivative financial instruments	–	–	39	–	–	–	39
Available-for-sale							
Held-to-maturity	377	–	–	–	–	20	397
Loans and receivables	97	121	177	36	23	113	567
Cash and cash equivalents	328	307	4 968	667	26	212	6 508
Other financial assets	92	–	223	–	–	16	331
	2 855	4 344	58 410	5 201	1 703	2 006	74 519

40 MARKET RISK *continued*
40.3 Currency risk *continued*

2016	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*19.6078*	*14.6587*	*16.2602*			
Investment securities							
Designated at fair value through income							
Equity securities	948	1 774	14 638	1 462	1 901	1 265	21 988
Debt securities	1 394	192	3 162	1 733	–	67	6 548
Funds on deposit and other money market instruments	239	10	7	–	–	48	304
Unit-linked investments	15	1 163	31 519	1 332	5	90	34 124
Investments in associates	–	32	496	–	–	–	528
Derivative financial instruments	–	–	138	2	1	–	141
Available-for-sale							
Equity securities	102	–	–	–	–	–	102
Held-to-maturity	78	–	–	–	–	–	78
Loans and receivables	225	81	187	37	13	56	599
Cash and cash equivalents	494	351	5 024	725	36	42	6 672
Other financial assets	69	–	302	–	–	13	384
	3 564	3 603	55 473	5 291	1 956	1 581	71 468

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

African exchange rates representing material balances above are:

Closing exchange rate	Botswana	Ghana	Kenya	Nigeria
2017	**1.2753**	**2.9818**	**0.1261**	**0.0416**
2016	1.3466	3.7272	0.1450	0.0519

40.4 Property risk

Property risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

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

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

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

The group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2017. The carrying amount of unlet and vacant investment property as at 30 June 2017 was R647 million (2016: R755 million).

40 MARKET RISK *continued*

40.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to market risks. The group has identified that changes in equity prices and interest rates are the market risk elements with the most significant effect on earnings and equity. The table below provides the sensitivity to a change in equity prices by 10% and a change to long-term interest rates by 100 basis points:

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

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with MMI's current practice and accounting policy, the investment variances from insurance contracts were stabilised.
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Hedging strategies using derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched within approved risk limits and tolerances and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the group is not considered to be material. Refer to note 40.3 for more details on the group's currency exposure.

41 CREDIT RISK

Credit risk refers to the risk of loss, or of adverse change in the financial position, resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation or due to deterioration in the financial status of the counterparty and any debtors to which shareholders and policyholders are exposed.

Credit risk could also arise from the decrease in value of an asset because of a deterioration of creditworthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, available-for-sale debt securities, held-to-maturity investments, reinsurance debtors, loans to policyholders and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk. Where instruments are held in cell captive arrangements, where the cell owner takes the risk, the credit risk is also transferred.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive BSM charter. The primary responsibility of the executive BSM is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

The executive BSM is a sub-committee of the group executive committee. This committee reports to the group's executive committee on the effectiveness of credit risk management and provides an overview of the group's shareholder credit portfolio. The executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the group credit exposure. This includes the monitoring of the following:

- Quality of the credit portfolio
- Stress quantification
- Credit defaults against expected losses
- Credit concentration risk
- Appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Balance Sheet Management Committee of the Board (Board BSM committee).

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the group's credit risk appetite.

The approval framework for new credits consists of two committees, namely an Executive Credit Committee and the BSM Credit Committee. The BSM Credit Committee consists of senior credit executives and independent senior management executives. The Executive Credit Committee consists of Group Executive Committee members and senior management executives. The Executive Credit Committee approves credits in excess of the mandate and limits of the BSM Credit Committee.

The following are taken into account in the approval process:

- The underlying nature of the instrument and credit strength of the counterparty.
- The credit rating of the issuer, either internally generated or external from either Moody's, S&P or GCR.
- Current exposure and portfolio diversification effects.

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

- The use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof.
- Preparing credit applications and performing annual reviews.

Regular risk management reporting to the executive BSM includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

41 CREDIT RISK *continued*

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the board BSM committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to Annexure B for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The group enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the group's credit risk exposure policy. For OTC interest rate swaps, the group enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending

The group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

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

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

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

Loans and receivables

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the group's new business premiums arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

An impairment of commission debtors is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans

The group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy.

Policy loans are secured by policies issued by the group. In terms of the regulations applicable to the group, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the group owns.

41 CREDIT RISK *continued*

Loans and receivables *continued*

Reinsurance

The group only enters into reinsurance treaties with reinsurers registered with the FSB. The credit rating of the company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

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

Financial assets and liabilities designated at fair value through income

The current year and cumulative fair value movements on instruments that would have otherwise been classified as loans and receivables or payables under IAS 39, but which have been designated at fair value through income, were mainly due to market movements. The current year fair value movement includes R24 million (2016: R44 million loss) attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

During the first half of 2017 the RSA sovereign credit ratings were downgraded by S&P (03 April 2017), Fitch Ratings (07 April 2017) and Moody's (09 June 2017). On 12 June Moody's downgraded the global scale insurer financial strength rating of MMI Group Ltd to Baa2. On 15 June 2017 Moody's affirmed MMIGL's national scale insurer financial strength rating of Aaa.za (the highest local scale rating).

Security and credit enhancements

In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments

For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the group's credit risk exposure policy described in this note.

Debt securities

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

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R521 million at 30 June 2017 (2016: R621 million).

Transfers of financial assets

The group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements. Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

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

Loans and receivables

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

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

Other receivables

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Contents

MMI HOLDINGS Ltd annual financial statements 30 June 2017

Statement of **financial position**

AT 30 JUNE 2017

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

Income statement

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **comprehensive income**

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **changes in equity**

FOR THE YEAR ENDED 30 JUNE 2017

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

Statement of **cash flows**

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(128)	(103)	16.1
Dividends received	2 767	2 827	
Interest received	78	78	11
Income tax paid	(6)	(13)	16.2
Interest paid	(39)	(41)	16.3
Net cash inflow from operating activities	2 672	2 748	
Cash flow from investing activities			
Investments in subsidiary companies	(332)	(1 008)	
Loans advanced to related parties	(580)	(982)	
Loans repaid by related parties	694	1 675	
Net cash outflow from investing activities	(218)	(315)	
Cash flow from financing activities			
Dividends paid	(2 471)	(2 469)	
Net cash outflow from financing activities	(2 471)	(2 469)	
Net cash flow	(17)	(36)	
Cash and cash equivalents at beginning	33	69	
Cash and cash equivalents at end	16	33	4

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

General

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

Loans to subsidiary companies

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

Additions to the cost of subsidiaries and other movements

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

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

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

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

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

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

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

Impairment

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

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

Terms and conditions of material loans

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

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

Impairment

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

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

FOR THE YEAR ENDED 30 JUNE 2017

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

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

5 **SHARE CAPITAL AND SHARE PREMIUM**

Authorised share capital of MMI Holdings Ltd

2 billion ordinary shares of 0.0001 cents each

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

Issued share capital of MMI Holdings Ltd

1.6 billion ordinary shares of 0.0001 cents each

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

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

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

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

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

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

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

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

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

Creation of deferred tax asset

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

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

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

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

8 **EMPLOYEE BENEFIT OBLIGATIONS** *continued*

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

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

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

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

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

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

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

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

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

[1] Includes restraint of trade payment.

		2017 Rm	2016 Rm
14	**OTHER EXPENSES**		
	Asset management fees	**1**	–
	Auditors' remuneration[1]	**–**	–
	Consulting fees	**8**	3
	Management fees[1]	**–**	9
	Marketing costs	**2**	3
	Office costs[1]	**–**	–
	Other expenses	**15**	15
	Other indirect taxes	**2**	4
		28	34
	Non-executive directors' emoluments included in other expenses above.	**14**	15

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

		2017 Rm	2016 Rm
15	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	**39**	41
16	**CASH FLOW FROM OPERATING ACTIVITIES**		
16.1	**Cash utilised in operations**		
	Profit before tax	**2 944**	2 845
	Adjusted for		
	Items disclosed elsewhere		
	Dividend received	**(3 089)**	(2 827)
	Interest received	**(78)**	(78)
	Finance costs	**39**	41
	Non-cash-flow items		
	Reversal of impairment	**–**	(46)
	Employee benefit obligations	**3**	4
	Impairment charges	**120**	–
	Changes in operating assets and liabilities		
	Loans and receivables	**(63)**	(2)
	Employee benefit obligations	**(2)**	(4)
	Other operating liabilities	**(2)**	(36)
		(128)	(103)
16.2	**Income tax paid**		
	Due at beginning	**1**	(1)
	Charged and provided	**(6)**	(11)
	Due at end	**(1)**	(1)
		(6)	(13)
16.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(20)**	(21)
	Paid 31 March	**(19)**	(20)
		(39)	(41)

17 RELATED PARTY TRANSACTIONS

17.1 Holding company

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

17.2 Transactions with directors

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

17.3 Transactions with related parties

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

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

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

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

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

18 CONTINGENT LIABILITIES

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

19 CAPITAL COMMITMENTS

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

20 RISK MANAGEMENT POLICIES

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

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

20 RISK MANAGEMENT POLICIES *continued*

20.1 Classes of assets and liabilities

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

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

20.2 Credit risk

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

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

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

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

Security and credit enhancements

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

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

20.3 Liquidity risk

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

20 RISK MANAGEMENT POLICIES *continued*

20.3 Liquidity risk *continued*

Liabilities at amortised cost

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

Other payables

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

The following table indicates the maturity analysis of the liabilities:

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

20.4 Market risk

Introduction

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

20.4.1 Interest rate risk

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

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

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

20.4.2 Sensitivity to market risks

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

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

The company has no foreign currency exposure.

Annexure A

SIGNIFICANT SUBSIDIARY COMPANIES

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

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

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

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

Annexure A (continued)

SIGNIFICANT SUBSIDIARY COMPANIES *continued*

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

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

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

* This subsidiary was not considered to be significant in either the current or prior year.
1 This subsidiary forms part of significant CIS associates in the current year. Refer to Annexure B.

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

Annexure B

UNCONSOLIDATED STRUCTURED ENTITIES

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

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

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the group is the policyholder of an investment contract issued by other insurance companies. Where the group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2017 Rm	2016 Rm
Collective investment schemes		
Local and foreign	**139 867**	132 119
Equity	**92 854**	84 318
Interest-bearing	**20 304**	18 277
Property	**5 187**	3 718
Mixed	**19 325**	23 867
Money market	**2 188**	1 898
Commodity	**9**	41
Other unit-linked investments	**16 836**	14 054
Local and foreign		
Equity	**4 133**	4 972
Interest-bearing	**2 183**	1 895
Mixed	**9 601**	6 392
Commodity	**919**	795
	156 703	146 173
Designated at fair value through income: unit-linked investments	**141 654**	135 662
Investments in associates designated at fair value through income	**15 039**	10 499
Available-for-sale: local unlisted quoted collective investment schemes	**10**	12
	156 703	146 173

Detail on investments in associates designated at fair value through income

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

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

Summarised financial information relating to the associates above:

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

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

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

Annexure B (continued)

UNCONSOLIDATED STRUCTURED ENTITIES *continued*

Other unconsolidated structured entities

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

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

* This listed securitisation was not considered significant in the prior year.
1 Included in securities designated at fair value through income in the statement of financial position. The carrying value represents the group's maximum exposure.
2 Consists of interest income and fair value gains/(losses).
3 The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

Annexure C

ABBREVIATIONS AND DEFINITIONS

ABBREVIATIONS

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

DEFINITIONS

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

Advisory practice notes (APNs)
ASSA issues APNs applicable to various areas of financial reporting and practice that require actuarial input. The APNs are available on the ASSA website (www.actuarialsociety.org.za).

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

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

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

DEFINITIONS *continued*

Capital adequacy requirement (CAR)

The CAR is a minimum statutory capital requirement for South African life insurance companies that is prescribed in the Standards of Actuarial Practice (SAP) 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

Capitation contracts

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

Carry positions

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

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

Cash generating units (CGUs)

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

Cell captive

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

Cell captive arrangements include:

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

Compulsory margins

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

Core headline earnings

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

Cost of required capital

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

DEFINITIONS *continued*

Covered business

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

Discretionary margins

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

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

Discretionary participation feature (DPF)

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

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

Effective exposure

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

Effective interest rate

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

Effective interest rate method

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

Embedded value (EV)

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

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

Embedded value earnings

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

Financial soundness valuation (FSV)

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

Fund account

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

Investment variances

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

New business profit margin

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

DEFINITIONS *continued*

Non-covered business

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

Objective evidence of impairment

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

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

Open-ended instruments

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

Prescribed officers

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

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

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

Present value of future premiums (PVP)

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

Present value of in-force covered business (VIF)

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

Related party transactions – key management personnel

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

Reporting basis

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

Required capital

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

Return on embedded value

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

Risk discount rate (RDR)

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

DEFINITIONS *continued*

Significant influence

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

Statutory basis

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

Unit-linked investments

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

Unrated

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

Useful life

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

Value of new business (VNB)

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

CREDIT RISK DEFINITIONS

AAA

National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.

AA

National ratings denote a very strong credit risk relative to all other issuers.

A

National ratings denote a strong credit risk relative to all other issuers.

BBB

National ratings denote an adequate credit risk relative to all other issuers.

BB

National ratings denote a fairly weak credit risk relative to all other issuers.

B

National ratings denote a significantly weak credit risk relative to all other issuers.

CCC

National ratings denote an extremely weak credit risk relative to other issuers.

Annexure D

SIGNIFICANT GROUP ACCOUNTING POLICIES

1. NEW IFRS STANDARDS AND AMENDMENTS

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

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

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

Improvements project amendments

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

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

2. CONSOLIDATION

2.1 Subsidiaries

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

Initial measurement

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

2. CONSOLIDATION *continued*

2.1 Subsidiaries *continued*

Disposals

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

Transactions with non-controlling interest shareholders

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

Measurement – MMI Holdings Ltd separate financial statements

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

2.2 Associates

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

Profits and losses resulting from transactions between group companies are recognised in the group's results to the extent of the group's unrelated interests in the associates. Gains and losses arising on the dilution of investments in associates are recognised in the income statement.

Measurement

Investments in associate companies are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the group's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the group's share of the associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition profit or loss and movements in other comprehensive income are adjusted against the carrying amount of the investments. The equity method is discontinued from the date that the group ceases to have *significant influence* over the associate. When *significant influence* is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Investments in collective investment schemes where the group has *significant influence* are designated as investments at fair value through income and are not equity accounted where they back contract holder liabilities, based on the scope exemption in IAS 28 – Investments in associates for investment-linked insurance funds. Initial measurement is at fair value on trade date, with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the reporting date. Fair value adjustments on collective investment schemes are recognised in the income statement. The related income from these schemes is recognised as interest or dividends received, as appropriate.

Impairment

Under the equity method, the carrying value is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount. When the group's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised unless the group has incurred obligations or made payments on behalf of the associate. The group resumes equity accounting only after its share of the profits equals the share of losses not recognised.

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

2.3 Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

2. CONSOLIDATION *continued*

2.3 Joint arrangements *continued*

Measurement

Interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

3. FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, measured at fair value through income, are recognised as part of their fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets are included in the available-for-sale reserve in other comprehensive income. Translation differences on monetary items classified as available-for-sale are recognised in the income statement when incurred.

Subsidiary undertakings

Foreign entities are entities of the group that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in other comprehensive income. On disposal, such exchange differences are recognised in the income statement as part of net realised and fair value gains.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. INTANGIBLE ASSETS

4.1 Goodwill

Recognition and measurement

Goodwill represents the excess of the cost of a business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Subsequent to initial measurement, goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisition of subsidiaries is included in intangible assets whereas goodwill on acquisition of associates is included in investment in associates.

When the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4. INTANGIBLE ASSETS *continued*

4.1 Goodwill *continued*

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the synergy of the combination in which the goodwill arose. *Cash-generating units* to which goodwill has been allocated are assessed annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. An impairment loss is recognised whenever the carrying amount of the *cash-generating unit* exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Any impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a cash-generating unit and then to reduce the carrying amount of other assets on a pro rata basis. Impairment losses on goodwill are not reversed.

4.2 Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the group recognises an intangible asset representing the value of in-force business acquired (VOBA). VOBA represents the present value of future pre-tax profits embedded in the acquired insurance or investment with DPF contract business. The VOBA is recognised gross of tax, with the deferred tax liability accounted for separately in the statement of financial position.

Measurement

The fair value calculation of VOBA on acquisition is based on actuarial principles that take into account future premium and fee income, claim outgo, mortality, morbidity and persistency probabilities together with future costs and investment returns on the underlying assets. The profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies discontinue.

The asset is subsequently amortised over the expected life of the contracts as the profits of the related contracts emerge.

Impairment

VOBA is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary.

4.3 Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the group expects to recognise the related revenue, which is between three and 10 years.

Impairment

The right is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount.

4.4 Deferred acquisition costs (DAC)

On long-term investment business
Incremental costs that are directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an asset if they can be identified separately and measured reliably, and if it is probable that they will be recovered. The asset represents the contractual right to benefit from receiving fees for providing investment management services, and is amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period.

On short-term insurance business
Refer to the short-term insurance contracts section of the accounting policies.

Impairment

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

4. INTANGIBLE ASSETS *continued*

4.5 Brand and broker network

Brand and broker network intangible assets have been recognised by the group as part of a business combination. The assets are recognised when they are separately identifiable, it is probable that the future economic benefits will flow to the group and the assets have a cost or value that can be measured reliably.

Measurement

The brand and broker networks are initially measured at fair value. As there is generally no active market for these intangibles, the fair value is determined with reference to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, on the basis of the best information available. In determining this amount, the group considers the outcome of recent transactions for similar assets, for example, the group applies multiples reflecting current market transactions to factors that drive the profitability of the asset (such as operating profit and VNB).

Subsequently, the brand and broker networks are amortised over their expected useful lives using the straight-line method. The brands are amortised over 20 years and the broker networks over five to 20 years.

Impairment

The brand and broker networks are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, being the value in use.

4.6 Computer software

Recognition and measurement

Acquired computer software
Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected *useful life* of three to 10 years, which is assessed annually using the straight-line method.

Internally developed computer software
Costs directly associated with developing software for internal use are capitalised if the completion of the software development is technically feasible, the group has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives, up to 10 years, using the straight-line method.

Costs associated with research or maintaining computer software programmes are recognised as an expense as incurred.

Impairment

Computer software not ready for use is tested for impairment annually. Computer software in use is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell and the value in use.

5. OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the group occupies a significant portion of the property, it is classified as an owner-occupied property.

Measurement

Owner-occupied properties are stated at revalued amounts, being fair value reflective of market conditions at the reporting date.

Fair value is determined using DCF techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio.

Increases in the carrying amount arising on revaluation of buildings are credited to a land and building revaluation reserve in other comprehensive income. Decreases that offset previous increases in respect of the same asset are charged against the revaluation reserve, and all other decreases are charged to the income statement.

5. OWNER-OCCUPIED PROPERTIES *continued*

Measurement *continued*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over five to 20 years. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Accumulated depreciation relating to these properties is eliminated against the gross carrying amount of the properties and the net amount is restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and the amount which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Disposals

When owner-occupied properties are sold, the amounts included in the land and buildings revaluation reserve are transferred to retained earnings.

6. INVESTMENT PROPERTIES

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the group. Investment properties include property under development for future use as investment property.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis. Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investment properties that are being redeveloped for continuing use as investment property, or for which the market has become less active, continue to be measured at fair value.

Undeveloped land is valued at fair value based on recent market activity in the area.

Transfers to and from investment properties

If an investment property becomes owner-occupied, it is reclassified under owner-occupied properties, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes, and vice versa.

Properties held under operating leases

Properties held under operating leases are classified as investment properties as long as they are held for long-term rental yields and not occupied by the group. The initial cost of these properties is the lower of the fair value of the property and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses

Unrealised gains or losses arising on the valuation or disposal of investment properties are included in the income statement in net realised and fair value gains and losses. These fair value gains and losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

7. FINANCIAL ASSETS

Classification

The group classifies its financial assets into the following categories:

- Financial assets at fair value through income, including derivative financial instruments
- Loans and receivables
- Held-to-maturity financial assets
- Available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- **Financial assets at fair value through income**
  This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception.

  A financial asset is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

  Financial assets are designated at fair value through income at inception if they are:
  - held to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  - managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy; or
  - a financial instrument that includes a significant embedded derivative that clearly require bifurcation.

- **Loans and receivables**
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held for trading and those designated at fair value through income or available-for-sale assets.

- **Held-to-maturity financial assets**
  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the group has the positive intention and ability to hold to maturity.

- **Available-for-sale financial assets**
  Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Recognition and measurement

A financial asset is recognised in the statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the financial assets. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Transaction costs that are not recognised as part of the financial asset are expensed in the income statement in net realised and fair value gains. Financial assets at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment.

The fair value of financial assets traded in active markets is based on quoted market prices at the reporting date. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the group establishes fair value by using valuation techniques disclosed in Annexure E. These include DCF analysis and adjusted price-earnings ratios allowing for the credit risk of the counterparty. Unquoted securities are valued at the end of every reporting period.

7. FINANCIAL ASSETS *continued*

Impairment of financial assets

- **Financial assets carried at fair value – available-for-sale**

  Equity investments

  At each reporting date the group assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not subsequently reversed in the income statement. Increases in fair value of equity instruments after impairment are recognised in other comprehensive income.

  Debt securities

  For debt securities, the group uses the criteria referred to under loans and receivables below. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the income statement.

- **Financial assets carried at amortised cost – loans and receivables**

  A provision for impairment is established when there is *objective evidence* that the group will not be able to collect all amounts due according to the original terms of the assets concerned. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original *effective interest rate*. The movement in the current year provision is recognised in the income statement.

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

  Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the group has transferred substantially all risks and rewards of ownership. The group also derecognises a financial asset when the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Realised and unrealised gains and losses

Financial assets at fair value through income

Realised and unrealised gains and losses arising from changes in the value of financial assets at fair value through income are included in the income statement in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under investment income in the income statement.

Available-for-sale assets

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When these assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised and fair value gains or losses. Interest and dividend income arising on these assets are recognised and disclosed separately under investment income in the income statement.

Changes in the fair value of equity securities denominated in a foreign currency and classified as available-for-sale are recognised in other comprehensive income. Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences resulting from changes in the amortised cost are recognised in the income statement; translation differences resulting from other changes are recognised in other comprehensive income.

7. FINANCIAL ASSETS *continued*

Offsetting

Financial assets and liabilities are set off and the net balance reported in the statement of financial position where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

Scrip lending

The equities or bonds on loan, and not the collateral security, are reflected in the statement of financial position of the group at year-end. Scrip lending fees received are included under fee income. The group continues to recognise the related income on the equities and bonds on loan. Collateral held is not recognised in the financial statements unless the risks and rewards relating to the asset have passed to the group. If the asset is sold, the gain or loss is included in the income statement.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including DCF and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative, subject to the offsetting principles as described under the financial assets accounting policies above.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging), or is based on a valuation technique whose variables include only observable market data.

When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the income statement but over the life of the transaction on an appropriate basis, or when the input becomes observable, or when the derivative matures or is closed out.

The subsequent fair value of exchange-traded derivatives is based on a closing market price while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

Embedded derivatives are separated and fair-valued through income when they are not closely related to their host contracts and meet the definition of a derivative, or where the host contract is not carried at fair value.

The group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement as part of net realised and fair value gains and losses, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps is recognised in the income statement within interest income or finance costs. Both effective changes in fair value of currency futures and the gain or loss relating to the ineffective portion are recognised in the income statement within net realised and fair value gains and losses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement within net realised and fair value gains and losses.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at cost, which approximates fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of change in value. Bank balances held to meet short-term cash commitments are included in funds on deposit and other money market instruments with a maturity of three months or less. Operating bank balances are included in bank and other cash balances.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS

The contracts issued by the group transfer insurance risk, financial risk or both. As a result of the different risks transferred by contracts, contracts are separated into investment and insurance contracts for the purposes of valuation and profit recognition. Insurance contracts are those contracts that transfer significant insurance risk to the group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle:

- If the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these arrangements, only fee income, investment income and net realised and fair value gains are included in the group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

Insurance contracts

Insurance contracts are those under which the group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is deemed significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

For *cell captive* business, insurance policies are issued in third-party *cell captive* structures or contingency policies. The company also accepts insurance and reinsurance inwards risks directly, eg where the promoter cell shares in the underwriting experience of selected call arrangements. All items relating to these arrangements are included in the group's income statement and statement of financial position, except for contract management fees.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Contracts with DPF

The group issues long-term insurance and investment contracts containing DPF. These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as long-term insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to long-term insurance contracts and investment contracts with DPF are measured in accordance with the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and CAR of long-term insurers. The FSV basis is based on best estimate assumptions regarding future experience plus *compulsory margins* and additional *discretionary margins* for prudence and deferral of profit emergence.

Assumptions used in the valuation basis are reviewed at least annually and any non-economic changes in estimates are reflected in the income statement as they occur. Economic changes in estimate are stabilised as they occur and are reflected in the income statement according to a specified release pattern.

The valuation bases used for the major classes of contract liabilities, before the addition of the margins described under the heading of *compulsory and discretionary margins* below, were as follows:

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, BSAs are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and Group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- Provision is made for the estimated cost of incurred but not yet reported (IBNR) claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported claims are disclosed in other payables.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit *compulsory margins* as required by SAP 104 – Calculation of the value of the assets, liabilities and CAR of long-term insurers. *Discretionary margins* are held in addition to the *compulsory margins*. These *discretionary margins* are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design, and in line with the risks borne by the group.

The main *discretionary margins* utilised in the valuation are as follows:

- Additional BSAs are held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder BSA described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.
- An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and utilised if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the group.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Compulsory and discretionary margins *continued*

- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

Embedded derivatives

The group does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN 110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate for each insurance portfolio, the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present VOBA, is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP 104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the group is entitled under reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

- The first consists of reinsurance liabilities which are payable to registered reinsurers, in terms of a reinsurance agreement and include premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.
- The second type consists of reinsurance contracts which the group has with third-party cell owners. The agreements in place with these cell owners are such that the cell owner acts as reinsurer to the group for the business which the cell brings to the group. The risks and rewards of insurance policies relating to these cells are passed on to the cell owner, and the group retains no insurance risk relating to these policies on a net basis. The group therefore has an obligation to pay the net results relating to the insurance business in the cell to the cell owner as a result of these agreements. This obligation is deemed to be a reinsurance arrangement and is disclosed as part of insurance contract liabilities.
- The third type consists of a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provides upfront funding to a cell within the group, with the cell then repaying this funding over an agreed term. The liability associated with this repayment is disclosed as part of reinsurance contract liabilities and is valued consistently with the DCF approach used for insurance contract liabilities.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Reinsurance contracts held *continued*

Impairment of reinsurance assets
If there is *objective evidence* that a reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method as that adopted for loans and receivables.

Long-term insurance premiums

Insurance premiums and annuity considerations receivable from long-term insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums is recognised when due. Receivables arising from insurance and investment contracts with DPF are recognised under insurance and other receivables.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

Insurance benefits and claims relating to long-term insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability and surrender claims are recognised when incurred. These claims also include claim events that occurred before the reporting date but have not been fully processed. Claims in the process of settlement are recognised in other payables in the statement of financial position. Maturity and annuity claims are recognised when they are due for payment. Outstanding claims are recognised in other payables. Contingency policy bonuses are included in claims in the income statement.

Reinsurance recoveries

Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on long-term insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the group's contribution to their retirement and medical aid funds). These costs are expensed when incurred. The FSV basis makes implicit allowance for the recoupment of acquisition costs; therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

Investment contracts

The group designates investment contract liabilities at fair value through income upon initial recognition as their fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment properties that are designated at inception as fair value through income. The group follows this approach because it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Measurement

The group issues investment contracts without fixed terms and contracts with fixed terms and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income.

For investment contracts without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the group's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

A financial liability is recognised in the statement of financial position when, and only when, the group becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.

The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Investment contracts *continued*

Measurement *continued*

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors relevant to a market participant, including the passing of time.

For investment contracts where investment management services are rendered and the contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded option within the investment contract liability. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

Deferred revenue liability (DRL)

A DRL is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Deferred acquisition costs

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

Short-term insurance contracts

Premiums

Short-term insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out in Directive 169 of 2011:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for IBNR claims at year-end, using the prescribed percentages specified by class of business and development period as set out in Directive 169.

11. FINANCIAL LIABILITIES

Recognition and measurement

The group classifies its financial liabilities into the following categories:

- Financial liabilities at fair value through income
- Financial liabilities at amortised cost

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

- **Financial liabilities at fair value through income**
  This category has two sub-categories: financial liabilities held for trading and those designated at fair value through income at inception.

  A financial liability is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

  Financial liabilities are designated at fair value through income at inception if they are:
  - eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  - managed, with their performance being evaluated on a fair value basis; or
  - a financial instrument that includes a significant embedded derivatives that clearly require bifurcation.

  A financial liability is recognised in the statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

  Issues and settlements of financial liabilities are recognised on trade date, being the date on which the group commits to issuing or settling the financial liabilities.

  The fair value of financial liabilities quoted in active markets is based on current market prices. Alternatively, where an active market does not exist, fair value is derived from cash flow models or other appropriate valuation models allowing for the group's own credit risk. These include the use of arm's-length transactions, DCF analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

  Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities designated at fair value through income

Financial liabilities designated at fair value through income, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below), preference shares and collective investment schemes liabilities (representing the units in collective investment schemes where the group consolidates the collective investment schemes and is required to disclose the value of the units not held by the group as liabilities) are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Interest on the callable notes, carry positions and preference shares are disclosed separately as finance costs using the *effective interest rate method*.

Carry positions

Carry positions consist of sale and repurchase of assets agreements. These agreements contain the following instruments:
- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities designated at fair value through income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments designated at fair value through income.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the group's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (*carry positions*) carried at fair value where they are managed on a fair value basis.

11. FINANCIAL LIABILITIES *continued*

Recognition and measurement *continued*

- **Financial liabilities at fair value through income** *continued*

  Carry positions *continued*

  Conversely, where the group purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the group, the consideration paid is included under financial assets carried at fair value where they are managed on a fair value basis.

  The difference between the sale and repurchase price is treated as finance costs and is accrued over the life of the agreement using the *effective interest rate method*.

- **Financial liabilities at amortised cost**

  Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the *effective interest rate method*.

  Convertible redeemable preference shares and convertible bonds

  Compound financial instruments issued by the group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. At initial recognition, the fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The dividends on these preference shares are recognised in the income statement in finance costs.

  Other payables

  Other payables are initially carried at fair value and subsequently at amortised cost using the *effective interest rate method.*

  Derecognition of financial liabilities

  A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

12. DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains, are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable.

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale financial assets and post-employment benefit obligations, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the capital gains effective rate, as it is assumed that the carrying value will be recovered through sale.

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

13. CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 20% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

14. INDIRECT TAXATION

Indirect taxes include various other taxes paid to central and local governments, including value added tax (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

15. LEASES: ACCOUNTING BY LESSEE

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the group are classified as finance leases.

Measurement

- **Asset**
  Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.

- **Liability**
  The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the group are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease. The group recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which the termination takes place.

16. LEASES: ACCOUNTING BY LESSOR

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

17. PROVISIONS

Provisions are recognised when, as a result of past events, the group has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

17. PROVISIONS *continued*

Onerous contracts

The group recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

18. CONTINGENT LIABILITIES

Contingent liabilities are reflected when the group has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

19. EMPLOYEE BENEFITS

Pension and provident fund obligations

The group provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

- **Defined contribution funds**
  A defined contribution scheme is a fund under which the group pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The group's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- **Defined benefit funds**
  A defined benefit scheme is a fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in other comprehensive income as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement.

Interest is recognised by applying the discount rate to the net defined benefit asset or liability and is recognised in the income statement. Other expenses related to the defined benefit plans are also recognised in the income statement.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets yields a debit balance. In such circumstances, the debit balance recognised as an asset in the group's statement of financial position cannot exceed the present value of any economic benefits available to the group in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the group the rules of the fund are considered.

Post-retirement medical aid obligations

The group provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

19. EMPLOYEE BENEFITS *continued*

Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

The group operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the group measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

The group recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

Compensation plans valued on the projected unit credit method

The group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable EV of a subsidiary company, and that will be used to settle the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

20. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group’s primary business being the provision of insurance and investment products, non-current assets held as investments for the benefit of policyholders are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

21. SHARE CAPITAL

Share capital is classified as equity where the group has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the group are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included in equity.

Issue costs

Incremental external costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds. All other share issue costs are expensed.

Treasury shares

Treasury shares are equity share capital of the holding company held by subsidiaries, consolidated collective investment schemes and share trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from shareholder equity on consolidation until the shares are cancelled or reissued. If reissued, the difference between the carrying amount and the consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects, is included in share premium.

22. DIVIDENDS PAID

Dividends paid to shareholders of the company are recognised on declaration date.

23. PUTTABLE NON-CONTROLLING INTERESTS

Puttable non-controlling interests represent put options granted to non-controlling interests of subsidiaries, entitling the non-controlling interests to dispose of their interest in the subsidiaries to the group at contracted dates.

Recognition and measurement

A financial liability at fair value through income is recognised, being the present value of the estimated purchase price value discounted from the expected option exercise date to the reporting date. In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings.

The estimated purchase price is reconsidered at each reporting date and any change in the value of the liability is recorded in net realised and fair value gains in the income statement. Interest in respect of this liability is calculated using the *effective interest rate method* and recorded within finance costs.

24. INCOME RECOGNITION

Income comprises the fair value of services, net of value added tax, after eliminating income from within the group. Income is recognised as follows:

24.1 Fee income

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Front-end fees are deferred and released to income when the services are rendered over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the group are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

24. INCOME RECOGNITION *continued*

24.1 Fee income *continued*

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered.

Cell captive fee income includes management fees. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered.

24.2 Investment income

Interest income

Interest income is recognised in the income statement, using the *effective interest rate method* and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

Dividend income

Dividends received are recognised when the right to receive payment is established. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro rata number of shares, there is no change in economic interest of any investor and as no economic benefit is associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

25. EXPENSE RECOGNITION

25.1 Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

25.2 Finance costs

Finance costs are recognised in the income statement, using the *effective interest rate method,* and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

26. SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the MMI executive committee that makes strategic decisions. Refer to segmental report for more details.

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 biannually, in line with the group's biannual reporting dates.

The valuation of the group's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities *(level 1)*
- Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) *(level 2)*
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) *(level 3)*.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Instruments classified as level 1 have been valued using published price quotations in an active market and include the following classes of financial assets and liabilities:

- Local and foreign listed equity securities
- Stock and loans to government and other public bodies, excluding stock and loans to other public bodies listed on the JSE interest rate market
- Local and foreign listed and unlisted quoted collective investment schemes (this also refers to the related collective investment scheme liabilities)
- Derivative financial instruments, excluding over-the-counter (OTC) derivatives.

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to note 6.8 for details of the instruments split into the different levels.

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
– Listed, local and foreign	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
Stock and loans to other public bodies		
– Listed, local	Yield of benchmark (listed government) bond	Market input
– Listed, foreign	DCF, benchmarked against similar instrument with the same issuer	Market input
– Unlisted	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread

Annexure E (continued)

VALUATION TECHNIQUES *continued*

Instrument *continued*	**Valuation basis**	**Main assumptions**
Other debt securities		
– Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	Published price quotations, external valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, prime and dividend return rate, bank and credit default swap curves, three-month JIBAR plus fixed spread), external valuations	Market input and appropriate spread
Funds on deposit and other money market instruments		
– Listed	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
Subordinated call notes (Liability)	Price quotations on JSE interest rate market (based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input
Preference shares (Liability)	Capital outstanding plus accrued dividends	Contract input

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

Information about fair value measurements using significant unobservable inputs *(level 3)*

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Equity securities				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
	Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Stock and loans to government and other public bodies				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	DCF	Nominal interest rate	8.51% to 9.99% (2016: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments				
Local listed	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets, the greater the fair value
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Published price quotations	Market input. Management applies judgment if an adjustment of quoted prices is required due to an inactive market.	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value

Annexure E (continued)

VALUATION TECHNIQUES *continued*

Information about fair value measurements using significant unobservable inputs *(level 3) continued*

Financial assets *continued*	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Other debt instruments (continued)				
Foreign listed	Mark to model	Adjustments to market-related inputs	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	DCF	Nominal interest rate	7.82% to 11.35% (2016: 7.56% to 11.5%); 7.16% to 13.98% (2016: 5.45% to 17.11%)	The higher the nominal interest rate, the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted quoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value

Information about fair value measurements using significant unobservable inputs *(level 3) continued*

Financial assets *continued*	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Unit-linked investments (continued)				
Other unit-linked investment				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit which is based on underlying ABIL investments	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value

Financial liabilities	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities designated at fair value through income				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	DCF	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted EV	Could vary significantly based on the risks associated with the investee	The higher the EV, the greater the fair value

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

Shareholder profile

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors	10	0.6	9
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	2	25.0	401
Government Employees Pension Fund	7	8.1	130
Public			
Private investors	19 792	2.7	44
Pension funds	201	3.6	58
Collective investment schemes and mutual funds	3 519	39.8	638
Banks and insurance companies	146	13.1	210
Total	23 679	100.0	1 604

An estimated 403 million shares (2016: 406 million shares) representing 25.1% (2016: 25.3%) of total shares are held by foreign investors.

SIZE OF SHAREHOLDING	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 – 5 000	19 742	83.3	19	1.2
5 001 – 10 000	1 541	6.5	11	0.7
10 001 – 50 000	1 461	6.2	32	2.0
50 001 – 100 000	299	1.3	22	1.4
100 001 – 1 000 000	491	2.1	156	9.7
1 000 001 and more	145	0.6	1 364	85.0
Total	23 679	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	25.0
Government Employees Pension Fund	130	8.1
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
Total	645	40.2

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2017, are disclosed.

Stock exchange **performance**

	2017	2016
12 months		
Value of listed shares traded (rand million)	**20 072**	25 614
Volume of listed shares traded (million)	**863**	1 057
Shares traded (% of average listed shares in issue)	**55**	67
Trade prices		
Highest (cents per share)	**2 669**	3 149
Lowest (cents per share)	**1 920**	1 900
Last sale of period (cents per share)	**2 024**	2 264
Percentage (%) change during year	**(11)**	(25)
Percentage (%) change – life insurance sector (J857)	**(6)**	(6)
Percentage (%) change – top 40 index (J200)	**(1)**	–
30 June		
Price/diluted core headline earnings (segmental) ratio	**10.1**	11.3
Dividend yield % (dividend on listed shares)	**7.8**	6.9
Dividend yield % – top 40 index (J200)	**2.8**	2.9
Total shares issued (million)		
Ordinary shares listed on JSE	**1 575**	1 574
Treasury shares held on behalf of contract holders	**(18)**	(13)
Basic number of shares in issue	**1 557**	1 561
Treasury shares held on behalf of contract holders	**18**	13
Convertible redeemable preference shares	**29**	30
Diluted number of shares in issue[1]	**1 604**	1 604
Market capitalisation at end (Rbn)[2]	**32**	36

1 The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

2 The market capitalisation is calculated on the fully diluted number of shares in issue.

Shareholder diary

Financial year-end	30 June	
Reporting	Interim results	2 March 2017
	Announcement of year-end results	6 September 2017
	Annual report published	29 September 2017
	Annual general meeting	24 November 2017
Ordinary dividends	**Interim**	
	Declared	1 March 2017
	Remat/Demat	28 March 2017 to 31 March 2017
	Record date	31 March 2017
	Paid	3 April 2017
	Final	
	Declared	5 September 2017
	Remat/Demat	26 September 2017 to 29 September 2017
	Record date	29 September 2017
	Paid	2 October 2017

NOTICE TO MEMBERS OF THE 16TH (SIXTEENTH) ANNUAL GENERAL MEETING OF MMI HOLDINGS LTD (MMI OR THE COMPANY)

Notice is hereby given (the notice) that the 16th (sixteenth) annual general meeting (AGM) of the shareholders of the Company, for the year ended 30 June 2017, will be held at 13:30 on Friday, 24 November 2017, 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 subregistered 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 Kilimanjaro 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 Friday, 17 November 2017. 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 17 November 2017 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 298 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 is Friday, 22 September 2017, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 17 November 2017. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 17 November 2017, 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, 14 November 2017.

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 299 to 301).
- Presentation of the annual financial statements of the company for the financial year ended 30 June 2017 (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**).
- 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 Ltd (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

Prof SC Jurisich was appointed by the board of directors of the company with effect from 1 October 2016. In accordance with the Companies Act, 71 of 2008, as amended (the Act) and the Memorandum of Incorporation (MOI) of the company, Prof Jurisich resigns and, being available, has offered himself for election by shareholders of the company. His brief curriculum vitae is presented on the MMI website **www.mmiholdings.com** and also appears on page 64 of the integrated report.

Prof Jurisich's performance and contribution were assessed by the MMI Nominations Committee as well as the board, and the board recommends Prof SC Jurisich's election as a director of the company. Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Prof SC Jurisich as a director of the company.

"Resolved as an ordinary resolution that Prof SC Jurisich be and is hereby elected as a director of the company with effect from 1 October 2016."

EFFECT OF ORDINARY RESOLUTION NUMBER 1

If ordinary resolution number 1 is passed, the effect will be that Prof SC Jurisich will be appointed as a director of the company with effect from 1 October 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 non-executive directors of the company are required to retire by rotation as directors of the company at this AGM. In these circumstances Mrs F Jakoet, Mr MJN Njeke, Prof JD Krige and Mr V Nkonyeni retire by rotation in accordance with the MOI and, being eligible, all the aforementioned directors 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** and also appears on pages 64 and 65 of the integrated report. 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 Mrs F Jakoet be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.2

"Resolved as an ordinary resolution that Mr MJN Njeke be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.3

"Resolved as an ordinary resolution that Prof JD Krige be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.4

"Resolved as an ordinary resolution that Mr V Nkonyeni be and is hereby re-elected as a director of the company with immediate effect."

EFFECT OF ORDINARY RESOLUTION NUMBER 2

If each ordinary resolution detailed in 2 above is passed, the effect will be that Mrs F Jakoet, Mr MJN Njeke, Prof JD Krige and Mr V Nkonyeni will be re-appointed as directors of the company 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 MMI REMUNERATION POLICY

*"Resolved as an ordinary resolution that the shareholders consider, by way of a non-binding advisory vote, the company's Remuneration Policy as set out in the integrated report on page 92 and also on the company's website: **www.mmiholdings.com**."*

EFFECT OF ORDINARY RESOLUTION NUMBER 5

In terms of principle 14 of the King IV Report on Corporate Governance™ (hereafter referred to as King IV), the company's remuneration policy should be tabled to the shareholders to pass a non-binding advisory vote in the same manner as an ordinary resolution at the AGM. Accordingly, the resolution would be carried if the shareholders pass a non-binding advisory vote on the remuneration policy.

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 in order to implement the ordinary and special resolutions passed at this meeting.

7. SPECIAL RESOLUTION NUMBER 1

APPROVAL OF DIRECTORS' REMUNERATION

In compliance with the provisions of section 66(9) of the Act and Regulations (as approved from time to time), the shareholders are required to approve the fees of the non-executive directors of the company. It is proposed that non-executive directors of the company will be paid a fixed annual fee for the services they render to the company as detailed in this special resolution number 1. The proposed directors' fees will not be dependent on attendance by the relevant director of board and committee meetings, and have been determined by the Remuneration Committee and approved by the board. The Remuneration Committee has agreed, with the exception of the fee increase for the chairman and deputy chairman with effect from 1 September 2017, not to increase the non-executive directors' fees which were approved at the previous AGM, with any inflationary increase for the current year. This is due to the fact that the introduction of 14% VAT on directors' fees, which resulted from the South African Revenue Services Binding General Ruling 41 dated 10 February 2017 (effective 1 June 2017), results in an additional 14% cost to MMI Holdings Ltd which is not VAT registered, and which is the entity that pays the majority of all directors' fees in the group. The revised scale of fees will be effective from 1 June 2017 to align with the effective date stipulated in the South African Revenue Services Binding General Ruling 41 dated 10 February 2017. Based on a survey undertaken by external consultants on the fees of the MMI non-executive directors' fees, it was proposed that the chairman and deputy chairman's fees be adjusted to align with those paid in the market by organisations which were comparable with MMI.

Special resolution 1.1: Non-executive directors' fees

"Resolved as a special resolution that non-executive directors of the company shall be paid fees for services rendered (excluding VAT thereon, when applicable), in accordance with the scale of fees set out below with effect from 1 June 2017, and such scale of remuneration shall be valid until the company's next AGM, or such later period permitted in terms of the Act."

Special resolution 1.2: Chairman and deputy chairman fees from 1 September 2017

"Resolved as a special resolution that the chairman and deputy chairman of the company shall be paid fees for services rendered (excluding VAT thereon, when applicable), in accordance with the scale of fees set out below with effect from 1 September 2017, and such scale of remuneration shall be valid until the company's next AGM, or such later period permitted in terms of the Act".

		RECOMMENDED FEES (excluding VAT) With effect from 1 June 2017 (R)	**RECOMMENDED FEES** (excluding VAT) With effect from 1 September 2017 (R)
1.1.1	Chairperson of the board		1 500 000
1.1.2	Deputy chairperson of the board		750 000
1.2.1	Chairperson of the board	1 292 500	**No fee adjustment/ increase**
1.2.2	Deputy chairperson of the board	646 280	
1.2.3	Board member	465 030	
1.2.4	Chairperson of audit committee	387 730	
1.2.5	Member	193 280	
1.2.6	Chairperson of actuarial committee	322 510	
1.2.7	Member	193 280	
1.2.8	Chairperson of remuneration committee	322 510	
1.2.9	Member	160 660	
1.2.10	Chairperson of risk, capital and compliance committee	387 730	
1.2.11	Member	193 280	
1.2.12	Chairperson of social, ethics and transformation committee	258 500	
1.2.13	Member	160 660	
1.2.14	Chairperson of nominations committee	193 280	
1.2.15	Member	96 640	
1.2.16	Chairperson of fair practices committee	258 500	
1.2.17	Member	160 660	
1.2.18	Chairperson of subsidiary board*	258 500	
1.2.19	Member of subsidiary board*	160 660	
1.2.20	Ad hoc work (hourly)	*The board may, from time to time, call upon the services of NEDs to undertake additional work and the total paid for such remuneration shall be a market-related hourly rate, subject to approval by the chairman of the board.*	

* *Boards established for segments and centres of excellence, from time to time, in terms of the MMI client-centric model.*

Executive directors shall not be remunerated for their services as directors of the company or its subsidiaries.

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 1

The reason for special resolution number 1 is to obtain shareholders' approval for payment by the company of non-executive directors' fees as determined by the Remuneration Committee and approved by the board, and as detailed above. The passing of special resolution number 1 will have the effect that the company will be authorised to pay non-executive directors fees in accordance with the scale of fees and effective dates detailed above for the services rendered to the company as directors.

8. SPECIAL RESOLUTION NUMBER 2

GENERAL APPROVAL TO PROVIDE FINANCIAL ASSISTANCE FOR SUBSCRIPTION OR PURCHASE OF SECURITIES IN RELATED OR INTER-RELATED ENTITIES IN TERMS OF SECTION 44 OF THE COMPANIES ACT

It is hereby noted that the company may from time to time provide financial assistance in terms of section 44 of the Act, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company (as contemplated in the Act, including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the "affiliates"), or for the purchase of any securities of the company or its affiliates, on such specific terms as may be authorised by the board.

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such special resolution unless the board:

- Is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 44(3)(b)(i));
- Is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 44(3)(b)(ii)); and
- Is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the company's MOI have been satisfied (section 44(4)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide financial assistance for subscription and purchase of securities as set out in section 44 of the Act.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 44 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates (including, without limitation, the giving of a guarantee to any subscriber, holder or purchaser of preference shares in any affiliate, as security for such affiliate's obligations under such preference shares), as set out in section 44 of the Act, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide financial assistance as contemplated in section 44 of the Act, on such terms and conditions and for such amounts as the board may determine."

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 2

The reason for special resolution number 2 is to grant the board a general authority in terms of the Act to cause the company to provide financial assistance by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates, as set out in section 44 of the Act in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 2 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance as set out in section 44 of the Act should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

9. SPECIAL RESOLUTION NUMBER 3

GENERAL APPROVAL TO PROVIDE FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED ENTITIES IN TERMS OF SECTION 45 OF THE COMPANIES ACT

It is hereby noted that the company may from time to time provide financial assistance in terms of section 45 of the Act to persons who are related or inter-related (as contemplated in the Act) to the company (including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the "affiliates"), whether in the form of loans and/or loan facilities, guarantees and/or guarantee facilities, mortgages, pledges, cessions, bonds or otherwise, on such specific terms as may be authorised by the board (collectively, for the purposes of this resolution, "financial assistance").

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such special resolution unless the board:

- Is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 45(3)(b)(i));
- Is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 45(3)(b)(ii)); and
- Is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the company's MOI have been satisfied (section 45(4)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide such financial assistance to affiliates.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 45 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance to affiliates, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Act, on such terms and conditions and for such amounts as the board may determine."

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 3

The reason for special resolution number 3 is to grant the board a general authority in terms of section 45 of the Act to cause the company to provide financial assistance to any affiliate in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 3 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance to affiliates should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

10. SPECIAL RESOLUTION NUMBER 4

GENERAL APPROVAL OF SHARE BUY-BACK

It is hereby noted that the company and/or its subsidiaries may from time to time acquire securities issued by the company. In this regard, it is proposed that the company renew its general approval for a share buy-back with the following special resolution:

"Resolved as a special resolution that the company hereby approves, by way of a general approval, the repurchase by the company or any of its subsidiaries from time to time of shares issued by the company upon such terms and conditions and in such amounts as the board of the company may from time to time determine, but subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, and subject further to the following conditions:

- *Any acquisition in terms hereof may only be effected through the order book operated by the JSE trading system and may only be done without any prior understanding or arrangement between the company and the counterparty.*
- *The company is authorised thereto by its MOI.*
- *This general approval shall be valid only until the company's next AGM, provided that it does not extend beyond 15 (fifteen) months from the date of this resolution, during which time this general approval may be varied or revoked by special resolution passed at a general meeting of the company.*
- *Any such acquisitions of the company's shares shall be announced when an aggregate of 3% (three percent) of the initial number of shares of the relevant class has been purchased and for each 3% (three percent) in aggregate of the initial number of shares of that class acquired thereafter.*
- *In determining the price at which the ordinary shares are repurchased by the company or its subsidiary in terms of this general authority, the maximum price at which such shares may be repurchased will not be greater than 10% (ten percent) above the weighted average of the market value for such ordinary shares for the 5 (five) business days immediately preceding the date of repurchase of such shares.*
- *In the case of an acquisition by a subsidiary of the company of shares in the company under this general approval, such acquisition shall be limited to a maximum of 10% (ten percent) in aggregate of the number of issued shares of any class of shares of the company, taken together with all the shares held by all the subsidiaries of the company, at the time of such acquisition.*
- *The general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed a maximum of 15% (fifteen 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 4

The reason for special resolution number 4 is to grant the board a general authority, in terms of the Listings Requirements and the MOI, for the acquisition by the company, or any subsidiary, of the company's shares.

The passing of special resolution number 4 will have the effect of providing the board with the flexibility, subject to the provisions of section 48 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 6
- The share capital of the company – page 6

STATEMENT OF ACCURACY OF INFORMATION

The directors, whose names are set out on pages 64 and 65 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 2017 and the date of this notice.

Notice of **annual general meeting** (continued)

SHAREHOLDER IDENTIFICATION, PROXIES AND VOTING

In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.

If you hold certificated shares (ie have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (ie have specifically instructed your CSDP to hold your shares in your own name), then:

- You are entitled to attend and vote at the AGM or, alternatively,
- In accordance with the provisions of section 58 of the Act, you are entitled to appoint one or more proxies (who need not be shareholders of the company) to attend, speak and, on a poll, to vote or abstain from voting in your stead by completing the form of proxy enclosed with the notice. You should pay careful attention to the notes set out at the end of the form of proxy. It is recommended that the form of proxy be forwarded to 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 at least 13:30 on Tuesday, 21 November 2017, or be delivered to the MMI company secretary or 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 Friday, 24 November 2017.

If you hold dematerialised shares (ie have replaced the paper share certificates representing your shares with electronic records of ownership under the JSE's electronic settlement system, Strate Ltd (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), LL von Zeuner (deputy chairman), NAS Kruger (group chief executive officer), M Vilakazi (group finance director), P Cooper (alternate WM Krzychylkiewicz), F Jakoet, SC Jurisich, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, KC Shubane, FJC Truter, BJ van der Ross, JC van Reenen.

By order of the board

Maliga Chetty
Group company secretary

5 September 2017

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 16th (sixteenth) annual general meeting of the shareholders of the company to be held on 24 November 2017 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 Ltd (MMI or the company) to fulfil the following monitoring and evaluation roles:

- Transformation, focusing on broad-based black economic empowerment (B-BBEE), the 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

In relation to Transformation, the SETC is mandated to review the strategy to be adopted by the company in support of the company's strategic objectives. There is a particular focus on strategies for Employment Equity, Skills Development and Preferential Procurement. The SETC is pleased to report that MMI moves beyond compliance and focuses on substantive transformation.

There is ongoing monitoring of adherence to the group's EE Plan according to the various occupational levels. The SETC has noted the slow pace of transformation with African males and females at senior and middle management and has mandated management to take corrective action. The skills development strategy has been aligned to the talent management strategy and the success is reflective in the B-BBEE score. Group Transformation, together with Group Procurement, continues to focus on preferential procurement from black-owned and black woman-owned entities.

Brief input on progress of MMI Way

MMI continues to drive a values-based culture known as the MMI Way. The MMI group executive leadership undertook a successful roadshow in March 2017 to four major centres (Centurion, Cape Town, Durban and Johannesburg) and addressed over 4 000 employees. The MMI Way is based on our values of accountability, integrity, teamwork, diversity, innovation and excellence. Progress has been made with interactive sessions across the country being held since May 2017. MMI's employee value proposition is being further consolidated to ensure that the financial wellness of employees is appropriately supported using solutions and offerings such as Multiply.

B-BBEE VERIFICATION AT 31 DECEMBER 2016

The group finalised its annual B-BBEE verification process, measuring the calendar year ended 31 December 2016 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 93.37 points (2015: 90.8). MMI ranks second amongst its peers in the industry.

Highlights include:

- **Skills Development (SD)**: Investing in our people is serious business from a growth and development perspective and this is pivotal to our success. In 2016 our total skills development spend was R150 million. We have also invested in learnerships with 835 Black learners; 655 of these learners were employed learnerships, and the remaining 180 learners were unemployed learnerships.
- **Employment Equity (EE)**: Our B-BBEE scorecard reflects an improvement of 0.25 points in our EE score. This shift is due to our focus on people with disabilities (PwD). There is still work to be done with African males and African females in senior and middle management. MMI has set aggressive targets for achievement of its EE goals.
- **Preferential Procurement (PP)**: MMI is pleased to announce that it achieved full points for Preferential Procurement. This is due to a significant focus on procurement from black owned (greater than 51%) and black women owned (greater than 30%) businesses. The procurement redirecting strategy has proven to be very effective.

CHANGES TO THE B-BBEE LEGISLATIVE LANDSCAPE

The draft amended Financial Sector Code (FSC) has not yet been gazetted. The gazetting of the code is imminent. The dti and the BEE Commission felt that amended codes did not demonstrate radical economic transformation as some of the targets were lower than the targets in the revised Codes of Good Practice (CoGP). This resulted in the formation of a Standing Committee of Finance where industry players came together to demonstrate the commitment of the financial services industry to Transformation. Three (3) parliamentary hearings took place in the first quarter of 2017. ASISA represented its members. The report was well received however; there was acknowledgement that more work still needed to be done. The outcome of the hearings will be a report with recommendations to the sector. The draft Amended FSC will therefore need to be aligned to the report and its recommendations.

Report by the **Social, Ethics and Transformation Committee** (continued)

MASIKHULISE (TOGETHER WE GROW) ENTERPRISE AND SUPPLIER DEVELOPMENT (ESD) TRUST

The Masikhulise (together we grow) Trust, an ESD trust, which houses all MMI's ESD initiatives, has made significant contribution to ESD. We currently have a recoverable investment and grant programmes.

As part of our recoverable investment programme, we have invested R50 million into the ASISA ESD Fund. The Fund supports beneficiaries in the Financial Services Sector by creating access to finance and access to market. The Fund is highly successful with contributions stemming from a number of ASISA member organisations.

There are three focus areas in the grant programmes. MMI has partnered with Aurik to facilitate an Enterprise Development programme for 12 beneficiaries. Aurik provides business development support to these beneficiaries with the ultimate aim of integrating these beneficiaries into the MMI supply chain.

MMI has partnered with ASISA to facilitate two broker development programme, the Momentum Masibambane (Holding Hands) programme and the Metropolitan Masithuthuke (let's develop together) programme. Through the Masibambane Broker Development Initiative, MMI has provided support to eight brokerages in the Middle Market Segment. Building on the progress made by the Masibambane initiative, MMI has launched Metropolitan's Masithuthuke Broker Development Initiative which provides a great opportunity for MMI to contribute to not only the brokerage business sustainability, but also the transformation of South Africa's insurance industry.

MMI believes that ESD is the most powerful tool to create jobs and address poverty hence MMI focuses on the creation of sustainable black businesses in support of Financial Wellness. MMI supports the National Development Plan (NDP) and firmly believes that ESD is the key driver to reduction of poverty in South Africa.

BLACK BUSINESS GROWTH FUNDING

The Empowerment Financing element currently measures the extent to which Life Offices and Banks provide funding towards Targeted Investments and funding towards BEE Transactions. The draft Amended FSC has proposed that the Empowerment Financing element should also include the recognition of financing to support black business growth, also referred to as Black Business Growth Funding.

In terms of the draft Amended FSC, the BEE Transaction Financing sub-element to the Empowerment Financing element, will now also include the above mentioned Black Business Growth Funding. The introduction of Black Business Growth Funding to the element does not however mean that existing BEE transactions cannot be recognised. They will be allowed to be recognised if they still existed at the time of the implementation of the Amended FSC and were still in place at the date of measurement. So, a deal that matured after the effective date of the Amended FSC but before the measurement date of the Measured Entity, will not be able to recognise that transaction. Those transactions must be replaced with deals supporting Black Business Growth Funding to maintain the points in that section.

EMPLOYMENT EQUITY

MMI reported for the first time in December 2016 since approval of its EE plan by the Department of Labour and will remain under the Department of Labour inspection for the duration of its EE plan ending in 2020. In implementing the EE plan, it is important to align progress with Nationally Economic Active Population (NEAP) ratios. Group Transformation commits to engage internal stakeholders to ensure implementation of the EE targets across the group.

ETHICAL CONDUCT

The group forensic services department reports to the SETC on a quarterly basis on any formal actions instituted against employees in respect of identified or alleged transgressions related to internal corruption, commercial crime and unethical behaviour. It also reports on the status of ethical behaviour at the point in time compared to previous periods as to measure ethical performance in the group. 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 provide oversight that fair treatment of clients, a core corporate value, is embedded across the value chain 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 is listed on the current FTSE/JSE Responsible Investment Index . 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. However, the Foundation has begun to review its strategy to ensure that it addresses the pressing needs of society.

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.

Syd Muller
Chairman: MMI Social, Ethics and Transformation Committee

5 September 2017

Form of proxy

MMI HOLDINGS

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration.

Sixteenth annual general meeting (AGM) to be held at 13:30 on Friday, 24 November 2017, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

I, ____ (full name)

of ____

Telephone number (_______) ____________________________ Mobile number ______________________________

Email 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 Friday, 24 November 2017 at 13:30, as well as at any adjournment of the said meeting.

Signed at ____________________ on this _______________ day of ____________________________________ 2017

SIGNATURE ____

VOTING INSTRUCTIONS

(Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.)

ORDINARY RESOLUTIONS

Nature of resolution		For	Against	Abstain
1.	Election of Prof SC Jurisich			
2.1	Re-election of Mrs F Jakoet			
2.2	Re-election of Mr MJN Njeke			
2.3	Re-election of Prof JD Krige			
2.4	Re-election of Mr V Nkonyeni			
3.	Re-appointment of PricewaterhouseCoopers Inc. as external auditors, with Mr Andrew Graham Taylor as the designated audit partner			
4.	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 MMI remuneration policy			
6.	Appointment of director or company secretary to implement ordinary and special resolutions			

SPECIAL RESOLUTIONS

Nature of resolution		For	Against	Abstain
1.	Approval of directors' remuneration			
1.1	Non-executive directors' fees			
1.2	Chairman and deputy chairman fees from 1 September 2017			
2.	General approval to provide financial assistance for subscription or purchase of securities in related or inter-related entities in terms of section 44 of the Companies Act			
3.	General approval to provide financial assistance to related or inter-related entities in terms of section 45 of the Companies Act			
4.	General approval of share buy-back			

ELECTRONIC COMMUNICATIONS

	YES, I agree	NO, I don't agree
In order to contribute to the company's efforts to limit consumption of paper and natural resources, decrease waste generation and achieve substantial savings to the benefit of MMI stakeholders, I hereby notify the company of my election to receive ALL notices and other communications electronically at the above email address, as and when such shareholder communications become available, including but not limited to AGM notices, summarised form of financial statements, any other prescribed notices and communications.		

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, 22 September 2017, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 17 November 2017. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 17 November 2017 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, 14 November 2017.
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), by at least 13:30 on Tuesday, 21 November 2017, or must be delivered to the MMI company secretary or 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 Friday, 24 November 2017.
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/her 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/her 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 Kilimanjaro 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 Friday, 17 November 2017. 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 17 November 2017 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

Administration

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

Estee Sevenster
Telephone: +27 12 684 4214
estee.sevenster@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

www.mmiholdings.com