# CONTENTS

## MMI HOLDINGS LTD ANNUAL FINANCIAL STATEMENTS 30 JUNE 2015

# STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

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

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

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

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

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

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

Introduction

At a glance

Shareholder reports

Financial statements

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

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

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

Equipment comprises furniture and fittings and computer equipment.

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

**General**

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

**Loans to subsidiary companies**

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

**Interest in subsidiaries acquired**

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

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

**Impairment**

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

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

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

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

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

**Terms and conditions of material loans**

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms.
- The loans to associates include a loan to C Shell 448 (Pty) Ltd for R10 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods.
- Preference shares:
  - MMI Holdings Ltd acquired preference shares in Eris Property Fund (Pty) Ltd for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R7 million (2014: R6 million). The preference shares have a term of five years from issue date.
- Loans to empowerment partners consist of:
  - a loan of R33 million to Business Venture Investments No 1796 (Pty) Ltd (BVI), a wholly-owned subsidiary of Kagiso Trust Holdings. The loan is interest-free and repayable on written notice by MMI Holdings Ltd or BVI at anytime from 26 February 2016.
  - an unsecured loan of R83 million (2014: R91 million) to a subsidiary of Kagiso Tiso Holdings (Pty) Ltd (KTH), with a repayment date of between five and 10 years from date of issue (January 2005), on which interest is charged at 80% of the prime interest rate.
  - the loans to empowerment partners include R303 million (2014: R323 million) at 30 June 2015, which relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.

**Impairment**

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

| | 2015<br>Rm | 2014<br>Rm |
|---|---|---|
| **6 CASH AND CASH EQUIVALENTS** | | |
| Bank and other cash balances | **69** | 260 |
| | **69** | 260 |

## 7 SHARE CAPITAL AND SHARE PREMIUM

**Authorised share capital of MMI Holdings Ltd**

2 billion ordinary shares of 0.0001 cents each

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

**Issued share capital of MMI Holdings Ltd**

1.6 billion ordinary shares of 0.0001 cents each

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

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

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

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

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

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

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

| | | 2015 Rm | 2014 Rm |
|---|---|---|---|
| 9 | **DEFERRED INCOME TAX** | | |
| | Deferred tax asset | 3 | 145 |
| | Tax losses and credits | 3 | 145 |
| | Deferred tax liability | (3) | (145) |
| | Revaluations | (3) | (145) |
| | | – | – |
| | *Movement in deferred tax* | | |
| | Balance at beginning | – | – |
| | Charge to income statement | – | – |
| | Revaluations | (148) | (55) |
| | Tax losses and credits | 148 | 55 |
| | Balance at end | – | – |

**Creation of deferred tax asset**

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

A deferred tax asset of R14 million (2014: R21 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

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

## 10 EMPLOYEE BENEFIT OBLIGATIONS *continued*

### MMI share schemes

#### *MMI Long-term Retention Award Scheme (MMI LTRAS)*

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

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

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

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

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

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

The performance units have performance criteria based on minimum hurdles related to the return on embedded value of the group. The units will therefore vest after a period of three years, and the group's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date, subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMI share (average of 20 trading days before the settlement date).

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

| | | 2015 Rm | 2014 Rm |
|---|---|---|---|
| **11** | **OTHER PAYABLES** | | |
| | Other payables | **62** | 22 |
| | Loans from subsidiary companies (Annexure A) | **–** | 160 |
| | | **62** | 182 |
| | Current | **62** | 182 |
| | **Terms and conditions of loans** | | |
| | The loans from subsidiary companies were interest-free, unsecured and payable on demand. | | |
| **12** | **INCOME TAX** | | |
| **12.1** | **Current income tax liability/(asset)** | | |
| | *Movement in liability/(asset)* | | |
| | Balance at beginning | **(1)** | (2) |
| | Charged to income statement | **20** | 7 |
| | Paid during year | **(18)** | (6) |
| | Balance at end | **1** | (1) |
| **12.2** | **Income tax expense** | | |
| | Current taxation | | |
| | Current year | | |
| | South African normal tax | **5** | 3 |
| | Foreign countries – withholding tax | **15** | 4 |
| | | **20** | 7 |

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

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

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

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

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

## 20 RELATED PARTY TRANSACTIONS

### 20.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 261 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include Kagiso Tiso Holdings (Pty) Ltd, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 24.5% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

### 20.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 41.2 of the group financial statements.

### 20.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates were included in note 5.

## 20 RELATED PARTY TRANSACTIONS *continued*

### 20.3 Transactions with related parties *continued*

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

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

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

## 21 CONTINGENT LIABILITIES

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

## 22 CAPITAL COMMITMENTS

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

## 23 RISK MANAGEMENT POLICIES

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

The company's capital is managed with that of the group. The capital management of the group is discussed in note 44 of the group financial statements.

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

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

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

**23 RISK MANAGEMENT POLICIES** *continued*

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

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

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

- For cash and cash equivalents, accounts receivable and other payables, the carrying value approximates fair value due to their short-term nature.
- For loans to subsidiary companies and the loans to associates there are no fixed terms of repayment. When the company is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The carrying value of loans to empowerment partners and strategic loans approximates fair value. In the prior year the fair value was the discounted amount of the estimated future cash flows expected to be received. The expected future cash flows were discounted at 12%.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. (*level 2*)
- For loans from subsidiary companies, the carrying value approximates fair value as they are payable on demand.

**23.3 Valuation techniques**

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

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable input that requires significant adjustment based on unobservable input, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

## 23 RISK MANAGEMENT POLICIES *continued*

### 23.3 Valuation techniques *continued*

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

### 23.4 Credit risk

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

The credit risk of the company is managed similarly to that of the group as disclosed in note 50 in the group financial statements.

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

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

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

**Security and credit enhancements**

- For cash and cash equivalents, the credit risk is managed through the group's credit risk exposure policy described in the group financial statements.
- Security held on loans is disclosed in note 5.

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

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

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

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

### 23.5 Liquidity risk

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

***Liabilities at amortised cost***

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

***Other payables***

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

***Management of liquidity risk***

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

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

## 23 RISK MANAGEMENT POLICIES *continued*

### 23.5 Liquidity risk *continued*

***Management of liquidity risk*** *continued*

The following table indicates the maturity analysis of the liabilities.

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

### 23.6 Market risk

***Introduction***

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

***Market risk governance***

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

#### 23.6.1 Equity price risk

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

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

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

#### 23.6.2 Interest rate risk

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

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The company is exposed to floating interest rates that result in cash flow interest rate risk.

23 **RISK MANAGEMENT POLICIES** *continued*
23.6 **Market risk** *continued*
23.6.2 **Interest rate risk** *continued*

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

**23.6.3 Sensitivity to market risks**

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates (2014: equity prices and interest rates) have the most significant effect on earnings and equity. The sensitivity to a change in equity prices by 10% and changes to interest rates by 100 basis points is discussed below.

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

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

The company has no foreign currency exposure.