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

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

Critical accounting estimates and judgements
Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing.

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

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

1 INTANGIBLE ASSETS *continued*

1.1 Goodwill *continued*

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

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

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

Critical accounting estimates and judgements

The value of in-force business acquired is tested for impairment through the liability adequacy test. Changing the amortisation period by 20% does not have a material impact on the group earnings before tax.

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

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

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

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

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

Internally developed software

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

Material computer software

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

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

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

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

Critical accounting estimates and judgements

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

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

Capitalisation and discount rates (2014: 9.0% – 12.0% and 14.0% – 16.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

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

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

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

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2015, amounting to 36% (2014: 37%) of the portfolio for the group. Eris is responsible for the majority of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	Base assumption	Change in assumption	Change in fair value: Decrease in assumption Rm	Change in fair value: Increase in assumption Rm
Capitalisation rate	**7.0% – 11.0%**	**10%**	**665**	**(198)**
Discount rate	**13.0% – 16.0%**	**10%**	**316**	**(411)**

Capitalisation and discount rates (2014: 7.0% – 12.0% and 13.0% – 16.0% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

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

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

* Effective group percentage held

- GDN (Metropolitan Health segment) provides services to the healthcare industry. During the prior year, an additional 15% in GDN was purchased for R32 million. The additional investment did not change the group's power to control the entity. GDN was transferred to a subsidiary on 1 January 2015 when the group acquired an additional stake in the company. The step-up to fair value was not considered material and the purchase price allocation has been included in the Other column in note 38.
- BEP, BVI 290, KPM, QM, SFP and RM are property services companies held by Eris Property Group (Pty) Ltd in the Momentum Investments segment.
- C Shell (International segment) is held 51% by Kagiso Tiso Holdings. C Shell owns 33% of Silverbridge Holdings Ltd which owns a company specialising in IT insurance software. The carrying value includes a loan of R7 million.
- EPF CV (Momentum Investments segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The group also owns 31.67% of the preference shares in EPF. Refer to note 7. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- MPSS provides funding to affordable housing developments and relates to the Shareholder Capital segment. The carrying value is limited to zero.
- KEIF fund relates to an associate held by a consolidated collective investment scheme.
- Management has assessed the level of influence that the group has on KEIF and RM and determined that it has significant influence even though the shareholding is below 20%.

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

General

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

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

Refer to note 43.1 for details of unlisted financial assets.

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

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

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

As part of its asset and liability management, the group purchases derivative financial instruments to reduce the exposure of policyholder and shareholder assets to market risks and to match the liabilities arising on insurance contracts.

Under no circumstances are derivative contracts entered into for speculative purposes. Where derivative financial instruments do not meet the hedge accounting criteria in IAS 39 – Financial instruments: recognition and measurement – they are classified and accounted for as instruments held for trading in accordance with the requirements of this standard.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:

- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

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

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the group.

Over-the-counter derivatives may expose the group to the risks associated with the absence of an exchange market on which to close out an open position.

The group's exposure under derivative contracts is closely monitored as part of the overall management of the group's market risk.

Fair value hedges

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

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

General

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

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

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

Terms and conditions of material loans

- Loans due from associates include:
  - R56 million (2014: R55 million) loans to Mettle Property Solutions Securitisation (Pty) Ltd. Interest is charged at JIBAR plus 3.5% or 6% (nacq). The repayment and security of the loan is linked to the underlying loan investment. The loans were impaired by R11 million in the current year (2014: R18 million).
  - a loan to Racecourse Mall (Pty) Ltd of R32 million in the prior year that has since been repaid. Interest was charged at 4.75%. The loan was secured by the underlying property in the company.
- The loans to empowerment partners of R328 million includes a loan of R303 million at 30 June 2015 (2014: R323 million) that relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 13% (2014: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.

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

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

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

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

Creation of deferred tax assets and recognition of deferred tax liabilities
Tax losses have been provided for as deferred tax assets where at year-end their recoverability was probable.

Included in the deferred tax asset of R150 million (2014: R191 million) raised due to tax losses, is a deferred tax asset of R132 million (2014: R50 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R673 million (2014: R276 million) relating to the unremitted earnings of international subsidiaries as the group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements
The group is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made.

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

13 SHARE CAPITAL AND SHARE PREMIUM

In December 2010, Metropolitan Holdings Ltd (now MMI Holdings Ltd) became the legal parent company of Momentum Group Ltd, now MMI Group Ltd (MMIGL), by acquiring all the shares in MMIGL from FirstRand Ltd. As this was accounted for as a reverse acquisition under IFRS 3 – Business combinations (revised) – the share capital and share premium of the group in the consolidated financial statements are those of MMIGL. The equity structure in terms of the number of authorised and issued shares in the consolidated financial statements reflects the equity structure of MMI Holdings Ltd.

Authorised share capital of MMI Holdings Ltd

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

Authorised share capital of MMIGL

- 225 million ordinary shares of 5 cents each
- 50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each and
- 4 104 000 convertible, participating, non-voting preference shares of 5 cents each.

Issued share capital

The issued share capital of the group reflects the issued share capital of MMI Holdings Ltd.

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

MMI Holdings Ltd ordinary shares	2015 Million	2014 Million
Total issued MMI Holdings Ltd shares at 30 June	**1 570**	1 570
Conversion of preference shares	**2**	–
Total ordinary shares in issue	**1 572**	1 570
Treasury shares held on behalf of contract holders	**(14)**	(14)
Basic number of shares in issue	**1 558**	1 556
Convertible redeemable preference shares	**32**	34
Diluted number of shares in issue	**1 590**	1 590
Treasury shares held on behalf of contract holders	**14**	14
Diluted number of shares in issue for core headline earnings purposes	**1 604**	1 604

MMIGL had 190 million ordinary shares in issue at 30 June 2015 (2014: 190 million).

Preference shares

MMI Holdings Ltd had 34 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 14 and the debt component is disclosed under note 19. On 13 November 2014 and 31 March 2015, 1 095 861 and 1 051 194 A3 preference shares, respectively, were converted into ordinary shares.

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

Dividends

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

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

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

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

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

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

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

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

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

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

The assumptions are set as follows:

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

The liabilities at 30 June 2015 would have been R13 620 million (2014: R14 161 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

The process used to decide on best-estimate assumptions is described below:

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2014 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2013 for Metropolitan Retail business and December 2014 for Momentum Retail business.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2009 to 2014 for Metropolitan Retail business.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Mortality *continued*

- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed in May 2015. The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2015. Mortality assumptions for Momentum Employee Benefits annuity business is based on the 2002 South African Annuitant standard mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2014. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations are done regularly, the most recent being in respect of the period ended March 2014 for Metropolitan Retail business and December 2014 for Momentum Retail and Momentum Employee Benefits business.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the group's own experience.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For Momentum Employee Benefits business, disability claim recovery probabilities are modelled using the group long-term disability table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for the group's own experience.

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2014.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2014 for Momentum Retail business and March 2015 for Metropolitan Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

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

- The budgeted expenses for the following year are taken as an appropriate base from which to set the expense assumptions.
- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2016 financial year and allows for escalation at the assumed expense inflation rate of 6.8% (2014: 6.7%). An additional 1% expense inflation is assumed in respect of Momentum Retail to reflect the impact of the run-off of the closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- For non-profit annuity and guaranteed endowment business, yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- For other business, a single gilt rate from the government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest 10 basis points.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate + 3.5% (2014: + 3.5%)
  - Property rate: gilt rate + 1.0% (2014: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2014: + 0.5%)
  - Cash rate: gilt rate – 1.0% (2014: – 1.0%)

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment returns *continued*

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

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

Future bonuses

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

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2015. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

The following table discloses specific points on the zero coupon yield curve used in the projection of the assets as at 30 June.

Year	1	2	3	4	5	10	15	20	25	30	35	40
2015	**6.8**	**7.2**	**7.6**	**7.8**	**8.0**	**8.7**	**9.2**	**9.6**	**9.7**	**9.8**	**9.8**	**9.8**
2014	6.5	7.0	7.4	7.7	7.9	8.7	9.3	9.8	10.0	10.1	10.1	10.0

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

Investment guarantees (APN 110) *continued*

The following instruments have been valued by the model:

Instrument	2015 Price (% of nominal)	2015 Volatility	2014 Price (% of nominal)	2014 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.6%**	**19.4%**	4.7%	16.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**1.4%**	**24.1%**	0.9%	21.1%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.03770 (2014: 1.03930)	**7.2%**	**18.6%**	6.2%	15.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.8%**	**23.2%**	7.5%	22.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**13.9%**	**21.9%**	13.6%	21.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.26820 (2014: 1.29410)	**16.6%**	**21.4%**	16.3%	20.8%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**2.7%**	**28.8%**	2.8%	29.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**11.4%**	**27.9%**	11.5%	29.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.48810 (2014: 3.98730)	**28.0%**	**27.4%**	30.2%	29.5%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	**6.3%**	**13.7%**	6.2%	13.2%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.4%**	**N/A**	0.4%	N/A

Tax

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

Basis and other changes

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

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2015 by R160 million (2014: R457 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – negative R314 million (2014: negative R388 million).
  - Experience basis changes – positive R154 million (2014: negative R87 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – Rnil (2014: positive R18 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business is included under this heading.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, the specified assumption changes while all the other assumptions remain constant.

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions by the specified amount in all future years.

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

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

The above sensitivities were chosen because they represent the main assumptions regarding future experience that the group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMI's published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

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

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

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

Sensitivity analysis *continued*

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

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

- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the Financial Services Board (FSB) granted approval for MMIGL to raise the following debt issuances:
  - On 8 March 2006, MMIGL issued R1 billion of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by MMIGL from 15 September 2015. The notes were issued at a spread of 70 basis points over the R157 government bond yield at the time.
    The coupon rate is fixed at 8.5% per annum, payable bi-annually on 15 March and 15 September, until the first call date (15 September 2015). At the first call date, a step-up of 80% of the initial credit spread will apply and interest will convert from fixed to floating, payable quarterly on 15 March, 15 June, 15 September and 15 December.
    MMIGL has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby MMIGL earns interest at the same fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
  - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2024. These notes are callable by MMIGL from 17 March 2019. The notes were issued at a spread of 146 basis points over the three-month JIBAR interest rate.
    The coupon rate is floating at the three-month JIBAR interest rate plus 1.46% (nacq) per annum, payable quarterly on 17 March, 17 June, 17 September and 17 December, until the first call date (17 March 2019). At the first call date, the margin over the reference rate will increase to 2.46% (nacq).
  - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2026. These notes are callable by MMIGL from 17 March 2021. The notes were issued at a spread of 170 basis points over the R208 government bond yield at the time.
    The coupon rate is fixed at 10.065% per annum, payable bi-annually on 17 March and 17 September, until the first call date (17 March 2021). At the first call date, the margin over the reference interest rate will increase to 270 basis points and interest will convert from fixed to floating, payable quarterly on 17 March, 17 June, 17 September and 17 December.
    MMIGL has hedged the fixed coupon rate (excluding the fixed credit spread) on this liability by entering into a swap agreement with Absa Bank Ltd whereby MMIGL earns interest at a fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
  - On 1 December 2014, MMIGL issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes have a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% p.a. over the three-month JIBAR interest rate.

MMIGL has sufficient cash to cover the debt.

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

- Carry positions (secured) – In the prior year R2 592 million related to a carry position with Rand Merchant Bank that represented a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions were secured by government stock with a value of R2 797 million. These carry positions are now being managed internally. The total value of the carry positions now managed internally amounts to R6 056 million which is secured by government stock with a value of R5 884 million.
- Carry positions (secured) – R3 313 million (2014: R1 117 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R6 467 million (2014: R1 232 million).
- Preference shares – On 26 June 2014, MMI Strategic Investments (Pty) Ltd issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Ltd. The declaration of preference dividends is calculated at 77% of JIBAR plus 175 basis points and is payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date and the ultimate redemption date is 27 June 2017.
- Included in other financial liabilities designated at fair value through income:
  - R30 million (2014: R58 million) of future contingent payments relating to Providence. Refer to note 38. The contingent future liability relates to an additional payment to be made within the next year based on the performance of the Providence group acquisition; therefore the actual amount paid could differ from the amount being provided for.
    The valuation of the contingent consideration has been calculated by taking management's best estimates of the forecasted Providence earnings before taxation, adding back depreciation and interest received multiplied by the rate agreed upon in the purchase agreement being 120%.
  - Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to embedded value. In terms of IFRS, the group has recognised a financial liability of R111 million, being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and de-recognised the non-controlling interest due to the financial liability recognised above, which is in line with its selected accounting policy.

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

19.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, had 34 381 139 A3 cumulative convertible redeemable preference shares in issue (to Kagiso Tiso Holdings (KTH), the group's strategic BEE partner) at the beginning of the year. Dividends were payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redeemable date of 29 June 2017. On each of 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares. The ordinary shares were originally issued at a price of R10.18 per share. An annual dividend of 132 cents per share is still payable on the remaining preference shares semi-annually in arrears on 31 March and 30 September each year. In the prior year, the group took over as a funder for the duration of this extension by acquiring preference shares in a KTH subsidiary (refer to note 7). The extension has been accounted for as a renegotiation of the original agreement and not as a settlement as the effect of the change was not significant. There was also no IFRS 2 cost resulting from this extension.

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

19 FINANCIAL LIABILITIES AT AMORTISED COST *continued*

19.2 Subordinated redeemable debt

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

19.3 Other

Included in other financial liabilities at amortised cost is:

- a R489 million (2014: R463 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at the prime rate minus 1%. The loan is secured by the underlying property.
- a R153 million (2014: Rnil) loan from Absa Bank Ltd in order to develop property held by a subsidiary. Interest on the loan is levied at the prime rate. The loan is secured by the underlying property.

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

The reinsurance liability relates to a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provided upfront funding to cells within Guardrisk and Momentum Ability. The cells then repay this funding over an agreed term and the liability associated with this repayment is disclosed above. Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

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

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

MMI Group Retirement Scheme (MGRS)

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

Momentum Staff Pension Funds

All full-time employees in the ex-Momentum group (MMIGL and its subsidiaries before the merger with Metropolitan) are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Southern Staff Pension Fund (SSPF), Sage Group Pension Fund (SGPF) and Momentum Life Pension Fund (MLPF) (which is included in Other on page 158 and page 159) are final salary defined benefit plans. The SSPF no longer has any assets in the fund and is in the process of being deregistered. A section 14 application for the SGPF is pending and it is expected that the fund will be liquidated or deregistered within the next financial year. The MLPF was liquidated during the current financial year.

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

The key valuation assumptions for the Momentum SPFs are:

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

Metropolitan Staff Retirement Fund (MSRF)

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

Metropolitan Staff Pension Fund (MSPF)

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

The key valuation assumptions for the MSRF and MSPF are:

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

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

SGPF and MSPF comprise of the following:

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

Income statement movement and future contributions

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

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

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

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

Valuation methodology

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

The key valuation assumptions are:

Assumptions	Base assumption	Change in significant assumption	Change in value of liability: Decrease in significant assumption Rm	Change in value of liability: Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	**8% (2014: 8%)**	**4%**	**(24)**	**29**
Defined contribution fund	**8% (2014: 8%)**	**1%**	**(10)**	**12**
Valuation rate of interest/discount rate	**9% (2014: 9%)**			
Administration fee inflation	**7% (2014: 7%)**			
Normal retirement age	**60 – 62 years**			
Mortality				
Pre-retirement	**SA 72-77 ultimate, with female rates equal to 70% of male rates**			
Post-retirement	**PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years**			

The weighted average duration of the post-retirement medical benefits obligation is 14.2 years (2014: 14.5 years).

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

Momentum share schemes

The ex-Momentum group had various cash-settled share schemes in place at the time of the merger with Metropolitan in December 2010.

Momentum Sales Scheme (MSS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations were made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares. Allocations made vest equally over the third, fourth and fifth anniversary. In November 2013 it was decided to no longer issue options under this scheme. The previous grants of share options will run out over the relevant term pertaining to the specific grants. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme remains cash-settled.

Momentum Conditional Share Plan (MomCSP)

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

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

MMI share schemes

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

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

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

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

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

MMI Long-term Incentive Plan (MMI LTIP)

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MMI share schemes *continued*

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

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

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

Momentum Sales Phantom Shares (MSPS)

In November 2013, Momentum Sales issued phantom shares to sales staff. Allocations made will vest in three equal tranches on the third, fourth and fifth anniversary, after the grant date. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme is cash-settled.

MMI Outperformance Plan (MMI OP)

The purpose of the plan is to motivate, reward and retain a small group of senior executives on a basis which aligns their interests with the group's targeted Return on Embedded Value (ROEV) of Nominal GDP +6%. Participants are primarily awarded performance units (vesting subject to certain group and individual performance criteria being met), whilst participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

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

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

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

21.2 **Employee benefit obligations** *continued*

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

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

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

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

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

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

Valuation assumptions relating to outstanding units at 30 June:

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

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

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

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

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

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

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

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

As stated on page 164, the performance units in the MMI LTIP are subject to performance criteria. These performance criteria have been set as detailed in the Remuneration Report set out on page 64 of this integrated report.

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

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

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

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

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

2014	1st tranche	2nd tranche	3rd tranche
Award date	01 Nov 13	01 Nov 13	01 Nov 13
Vesting date	01 Nov 16	01 Nov 17	01 Nov 18
Outstanding units (thousands)	583	583	583
Valuation assumptions include:			
Outstanding tranche period in years	2.33	3.33	4.33
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

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

MomCSP, MMI LTRAS, and MMI OP

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

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

Tranches vested during the current or prior year

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

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

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

Share-based payment expense

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

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

		2015 Rm	2014 Rm
23	**PROVISIONS**		
	Balance at beginning of year	**157**	180
	Additional provisions	**52**	245
	Utilisation of provisions	**(84)**	(230)
	Unutilised amounts reversed	**(43)**	(38)
	Exchange differences	**(4)**	–
	Balance at end of year	**78**	157
	Current	**9**	153
	Non-current	**69**	4
		78	157
	The provisions relate to individually small items with no single significant amount.		
24	**NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE**		
	Non-current assets held for sale		
	Balance at beginning of year	**17**	680
	Disposals	**(17)**	(663)
	Balance at end of year	**–**	17

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

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

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

2014 reclassification

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

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

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

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

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

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

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

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

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

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

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

Reconciliation of headline earnings attributable to owners of the parent	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Earnings – equity holders of group	**2 857**	3 197	**2 857**	3 197
Finance costs – preference shares			**44**	45
Dilutory effect of subsidiaries[3]			**(31)**	(22)
Diluted earnings			**2 870**	3 220
Intangible assets and other impairments	**19**	25	**19**	25
Tax on intangible assets and other impairments	**(4)**	–	**(4)**	–
Headline earnings[4]	**2 872**	3 222	**2 885**	3 245
Net realised and fair value gains on excess	**6**	(544)	**6**	(544)
Basis and other changes and investment variances	**148**	160	**148**	160
Amortisation of intangible assets relating to business combinations	**720**	575	**720**	575
Non-recurring items[5]	**53**	171	**53**	171
Investment income on treasury shares held on behalf of contract holders			**24**	14
Core headline earnings[6]	**3 799**	3 584	**3 836**	3 621
Weighted average number of ordinary shares in issue (million)	**1 557**	1 556	**1 557**	1 556
Adjustments for				
Assumed conversion of 32 million (2014: 34 million) preference shares (weighted)			**33**	35
Diluted weighted average – earnings and headline earnings (million)[7]			**1 590**	1 591
Treasury shares held on behalf of contract holders			**14**	14
Impact of weighting			**–**	(1)
Diluted weighted average – core headline earnings (million)[7]			**1 604**	1 604

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

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

3 **Dilutory effect of subsidiaries**
Metropolitan Health is consolidated at 100% and the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in the results. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated.

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

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

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

7 **Diluted weighted average number of shares**
For diluted core headline earnings per share, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings per share, treasury shares held on behalf of contract holders are deemed to be cancelled.

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

2014 reclassification

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

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

38 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2015

Cannon

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

CareCross

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

Other

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

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

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

38 BUSINESS COMBINATIONS *continued*

Business combinations for the year ended 30 June 2014

Guardrisk Group

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

Providence Group

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

Other

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

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

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

		2015 Rm	2014 Rm
39	**CAPITAL AND LEASE COMMITMENTS**		
	Capital commitments		
	Authorised but not contracted	**208**	388
	Authorised and contracted	**–**	364
		208	752
	The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, sponsorships, promotions and new business opportunities, will be financed from internal sources. Also refer to note 42 for significant events after the reporting period.		
	Lease commitments		
	The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
	Less than 1 year	**21**	47
	Between 1 and 5 years	**51**	32
	More than 5 years	**31**	–
		103	79
	The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
	Less than 1 year	**469**	373
	Between 1 and 5 years	**821**	1 194
	More than 5 years	**423**	413
		1 713	1 980

40 CONTINGENT LIABILITIES

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

41 RELATED PARTY TRANSACTIONS

41.1 Major shareholders and group companies

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

Kagiso Tiso Holdings (Pty) Ltd (KTH) is also considered to be a related party by virtue of its role as the group's broad-based black economic empowerment (B-BBEE) partner.

Apart from the shareholders' roles as related parties discussed above, no other MMI Holdings Ltd shareholders have a significant influence and thus no other shareholder is a related party.

Significant subsidiaries of the group are listed in Annexure A. Details of the associates of the group are contained in note 5 and Annexure B.

Various collective investment schemes in which the group invests are defined as subsidiaries as the group controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the group has significant influence but not control are classified as investments in associates carried at fair value; details are included in Annexure B.

Other related parties include directors, key management personnel and their families. Key management personnel for the group are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and the separate entities that they influence or control. To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management, where full details of all relationships and terms of the transactions are provided.

41 RELATED PARTY TRANSACTIONS *continued*

41.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the group, as well as to non-executive directors (in the form of fees). Transactions with directors are disclosed in the corporate governance report on pages 57 to 59 and pages 65 to 68 respectively.

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

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

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

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

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

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

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

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

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

The group's broad-based black economic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), has an interest of 7.1% (2014: 7.1%) in MMI Holdings Ltd. The group has entered into the following transactions with KTH:

- MMI Holdings Ltd issued preference shares to KTH as disclosed in note 19.1.
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares are convertible into ordinary shares on a one-for-one basis and can only be converted as and when the preference shares are redeemed, also on a one-for-one basis. KTH holds a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd through this transaction.
- KTH has a 21.2% holding in Eris Property Group (Pty) Ltd, a property management company.
- KTH has a 20% holding in Metropolitan Retirement Administrators (Pty) Ltd (MRA). The 20% interest was sold to MMI Holdings Ltd effective 1 July 2015. MRA specialises in the provision of administration services to large retirement funds through the effective use of technology and end-to-end automation.
- KTH has a 51% holding in C Shell 448 (Pty) Ltd – refer to note 5.

41 RELATED PARTY TRANSACTIONS *continued*

41.4 Contract administration

Certain companies in the group carry out third-party contract and other administration activities for other related companies in the group. These transactions are entered into at market-related rates. These fees are eliminated on consolidation.

41.5 Transactions with associates

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

41.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

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

41.7 Post-employment benefit plans

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

42 EVENTS AFTER THE REPORTING PERIOD

Refer to page 96 of the directors' report.

43 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The group is currently exposed to the following risks:

Insurance risk: Life insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year.

Liquidity risk: Liquidity risk is the risk that the group, although solvent, will encounter difficulty in meeting obligations associated with financial and insurance liabilities (that are settled by delivering cash or another financial asset) as and when they fall due because of insufficient funds in the group, or because of the possibility that the group could be required to pay its liabilities earlier than expected (as a result of unexpected policyholder behaviour). This might occur in circumstances where the group's assets are not marketable, or can only be realised at excessive cost. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

Market risk: Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held. In certain instances these risks are passed on to policyholders, eg when financial instruments subject to market risk back contract holder liabilities.

Credit risk: Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties.

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial and insurance risks inherent in the contracts issued by the group.

43 FINANCIAL RISK MANAGEMENT *continued*

43.1 Classes of assets and liabilities

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

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

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

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

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

44 CAPITAL MANAGEMENT

44.1 Capital management objectives

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

- to optimise the group's return on embedded value;
- to maintain the optimal level of capital in the most cost efficient way. The optimal capital level is determined by balancing the needs of regulators, policyholders and shareholders. The optimal capital level aims to meet the group's strategic objective of maximising shareholder value, while at the same time considering the regulatory requirements and policyholder needs;
- to manage the levels of capital across the group to keep these in line with the economic capital requirement for each operating company and division;
- to ensure that the level of capital reflects and is consistent with the group's risk profile and risk appetite;
- to optimise the level of capital, the investment of the capital and the future use of this capital to the benefit of all stakeholders; and
- to ensure that there is sufficient capital available for profitable business growth.

44.2 Capital management framework

The capital management framework rests on the following three pillars:

- the investment of capital;
- the targeted level (and sources) of capital; and
- the allocation of capital to subsidiaries and divisions.

The current focus of the group is on the targeted (ie required) level of economic capital, given the anticipated changes in the regulatory environment.

44.3 Overview of capital management developments

44.3.1 Capital held in the holding company

MMI Holdings Ltd (ie the non-operating holding company) serves as the vehicle to facilitate the efficient deployment of capital to the various operating subsidiaries in the group. The holding company therefore retains sufficient capital to protect the brand and facilitate growth plans as formulated in the business strategy. The capital resources held by the holding company also reflects the reality that the group cannot rely on a large parent (or strategic partner) to provide additional capital during times of need.

44.3.2 Capital allocated to the operating subsidiaries

The operating subsidiaries of the group hold sufficient capital as required for their particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The economic capital requirement represents a long-term view (ie it looks through the economic cycle).

The economic capital requirement for the group's main life-insurance subsidiary, ie MMIGL, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the economic capital requirements for five years. The required capital level of the life-insurance subsidiary reflects the approved risk appetite, which depend on the inherent risk profile of the company.

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

For other life-insurance companies in the group, a multiple of the statutory capital adequacy requirement (CAR) is used to determine the economic capital requirement.

The capital levels of the non-insurance companies and subsidiaries are based on operational requirements (subject to any regulatory capital requirements), taking into account new business targets.

Actions that have been used in the past to manage the capital level include share buy-back programmes, normal and special dividend payments, capital reductions, raising subordinated debt and preference shares, as well as the consolidation of life insurance and other licenses in the group. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuary of MMIGL.

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.3 Statutory capital requirement

All of the life insurance subsidiaries in the group must hold allowable capital of not less than the minimum prescribed statutory CAR. MMI's only restrictions on its ability to access or use its assets and settle its liabilities are statutory restrictions. The prescribed minimum capital is available to meet obligations (and not available for distribution to equity holders) in the event of substantial adverse unexpected deviations from the best-estimate actuarial valuation assumptions.

The statutory surplus and CAR are determined in accordance with the requirements of the FSB and the standards and practice notes as issued by the Actuarial Society of South Africa. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. Although CAR is only a statutory requirement for South African life-insurance companies, it is also applied to the non-South African life-insurance companies in the group as a measure of prudence. The regulatory capital requirements of insurance companies outside South Africa are generally less stringent than South African CAR requirements.

The CAR is determined as the greater of the "Termination CAR" and the "Ordinary CAR". The Termination CAR ensures that the insurer has sufficient capital to survive an adverse selective mass termination of contracts. The Ordinary CAR includes provisions and scenario tests for a number of risks including:

- financial risk from asset and liability mismatch under specified market movements (resilience test);
- random fluctuations in insurance and expense risks; and
- risk that long-term insurance and financial assumptions are not realised.

44.3.4 Regulatory capital developments

The FSB is in the process of introducing a new solvency regime for the South African long-term and short-term insurance industries to be in line with European standards. To achieve this, the FSB launched its Solvency Assessment and Management ("SAM") project during 2010. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to specific South African circumstances where necessary. The intention with the FSB's SAM project is to achieve third country equivalence status with the Solvency II regime.

It is expected that SAM will ultimately result in substantial changes to the South African insurance capital management landscape. The group is actively participating in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in light of local and international developments.

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

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

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

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

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.5 Issuance of subordinated debt

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

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

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

MMI Group Ltd subordinated debt Instrument code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MGL01	1 000	8.50%	9.5	Mar-06	Fixed
MMIG01	750	3-month JIBAR + 1.46%	5.0	Mar-14	Floating
MMIG02	750	10.07%	7.0	Mar-14	Fixed
MMIG03	750	3-month JIBAR + 2.30%	5.5	Dec-14	Floating

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

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

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

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

44.4 Sources of capital utilised

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

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

44.5 Regulatory capital position

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

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

44 CAPITAL MANAGEMENT *continued*

44.5 Regulatory capital position *continued*

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

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

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

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

44.6 Economic capital

The economic capital requirement for MMIGL is based on an internal capital projection model (using stochastic modelling techniques), while the other life-insurance companies use a multiple of the statutory CAR to determine the economic capital requirement. The strategic operating subsidiaries of MMI Holdings Ltd hold sufficient capital as required for the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (ie to look through the economic cycle).

Given that the SAM specifications have to a large extent been finalised, the delay in the approval of the Guardrisk internal model and the resulting uncertainty around the ultimate impact of SAM on future capital requirements and capital management, MMI deems it prudent at this stage to keep a capital buffer. MMI also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, we are comfortable that the level of the capital buffer, after the payment of the ordinary final dividend, should be sufficient to meet future strategic requirements and the potential impact of SAM.

44.7 Credit ratings

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

45 INSURANCE AND INVESTMENT BUSINESS

The table below reconciles the contract holder liabilities for each category to the total liability in the statement of financial position. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

45.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the FSB to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MMIGL has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the MMI Holdings Ltd board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

Contracts with discretionary participation features (DPF) *continued*

- The major classes of smoothed bonus business are:
  - Metropolitan Retail individual smoothed bonus business (open to new business).
  - Momentum Employee Benefits smoothed bonus business (open to new business).
  - Momentum Employee Benefits with-profit annuity business (open to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
  - Momentum Retail fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

Market-related business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts that also provide cover on death or disability.

- The group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the group's investment managers, which is supported by technical as well as fundamental analysis.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.
- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

- Benefit payments on non-profit annuities are generally fixed in nominal or inflation-adjusted terms and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Guaranteed endowments (insurance and financial instrument business)

Insurance

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.
- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, it will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Financial instruments

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

Other non-profit business

- These include long-term regular premium insurance contracts of varying duration.
- The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

45.2 Long-term insurance risk

Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

Long-term insurance risk management

The statutory actuary has a duty under the Long-term Insurance Act, 52 of 1998, to ensure that a legal entity remains solvent and able to meet liabilities at all times. The statutory actuary reports on these matters to the MMI board, MMI Audit Committee and the FSB. The Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The Actuarial Committee has been appointed by the MMI Holdings Ltd board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, retrenchment rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In adverse circumstances, actual claims and benefits may exceed the liabilities held. The risk is mitigated to an extent through the addition of margins, especially where there is evidence of moderate or extreme variation in experience.

Reinsurance agreements are used as a primary risk mitigation tool, particularly in terms of insurance risks that are not well understood or fall outside the group's risk appetite.

The main insurance risks, as well as MMI's approach to the management of these risks, are set out on the following pages.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks

The risk of adverse change in the value of insurance contracts arising from changes in the level, trend, or volatility of demographic rates in respect of insurance obligations where a change in demographic rates lead to an increase in the value of insurance liabilities or claims. Underwriting processes are in place to manage exposure to these risks. The most significant measures are:

- Premium rates are required to be certified by the statutory actuaries as being financially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract or aggregation of contracts.

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below.

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting these risks:
  - The most significant factors that could substantially change the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
  - Economic conditions can potentially affect morbidity claims where benefits are determined in terms of the ability to perform an occupation.
  - Medical advances can potentially affect the size and severity of medical claims.
  - Anti-selection, such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
  - The effect of selective withdrawal, which means policyholders are less likely to withdraw voluntarily if the cover is more likely to be needed in the foreseeable future.
  - Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.
- How risks are managed:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Group practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
  - All applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for each product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify abnormal risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
  - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
  - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for sub-standard lives and large sums assured.

    Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks continued

Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is on fully underwritten and limited underwriting products excluding funeral products which are not reinsured.

– Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MMIGL's catastrophe reinsurance cover for the current financial year is R700 million (2014: R650 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The table below shows the concentration of individual insurance contract benefits (gross and net of reinsurance) by sum insured at risk.

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

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - life insurance (mostly lump sum, but some children and spouse's annuities)
  - disability insurance (lump sum and income protection)
  - dread disease cover
  - continuation of insurance option.
- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk.
  - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - o Region
    - o Salary structure
    - o Gender structure
    - o Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

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

- To manage the risk of anti-selection, there is an 'actively at work' clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.
- Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured.
- There are some facultative arrangements in place on some schemes where a special structure is required, eg a very high free cover limit or high benefit levels.
- In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

The table below shows the concentration of group schemes by scheme size (as determined by the number of lives covered).

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

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. With-profit annuities are also offered whereby the policyholder shares in the experience of a predefined group of policyholders. The longevity risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
  - increased longevity due to medical advances and improvement in social conditions
  - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - Annuity products are sometimes sold in combination with whole life cover, which provides a natural hedge against longevity and mortality risk.
  - Premium rates differentiate on the basis of age and sex.

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

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

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

Permanent health insurance business

The group also pays permanent health insurance (PHI) income to disabled employees, the bulk of which is from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is, therefore, the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims are reviewed at inception to determine eligibility. On-going claims in payment are also reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

45.2.2 Contract persistency risk

- Persistency risk is the risk of adverse change in the value of insurance contracts due to adverse lapse, surrender and paid-up experience, or to a change in the expected exercise rates of such policyholder options.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, any amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which is usually the case for risk policies and normally happens early on in the term of recurring premium savings policies, or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits.

Factors affecting the risk:

- Economic conditions – economic hardship can cause an increase in terminations due to a reduced ability to afford premiums or a need for funds.

How risks are managed:

- In addition to setting realistic assumptions with regard to termination rates (rates of lapse, surrender and paid up experience) based on the group's actual experience, specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, efforts are in place to actively retain customers at risk of departure due to a lapse, surrender or maturity.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products with investment contract features is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

45.2.3 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance liabilities, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. MMI has some exposure to retrenchment risk, and will consider future opportunities which provide adequate risk adjusted return and can be appropriately mitigated. The risk is seen as an enabler to get more exposure to other risks to which MMI has a risk seeking attitude. When writing retrenchment risk, MMI carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

45.2.4 Expense risk

There is a risk that the group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Budget controls are in place to mitigate this risk. The group performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience and budgets, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of books, arising from past acquisitions and closed to new business.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.5 Business volume risk

There is a risk that the group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs is variable and relates directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are also used to distribute other product lines within the group, such as health insurance and short-term insurance.

45.3 Short-term insurance risk

Short-term insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines.

The definitions of the risks that compromise short-term insurance risk are presented below:

- Premium risk: the risk of financial loss arising from fluctuations in timing, frequency and severity of insured events for business to be written in the next 12 months and unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or the need to increase these provisions.
- Reserve risk: the risk of adverse change in the value of insurance obligations arising from fluctuations in timing and amounts of claim settlements.
- Lapse risk: the risk of financial loss, or of adverse change in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- Catastrophe risk: the risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a financial loss, or of an adverse change in the value of insurance liabilities. Catastrophe losses are the losses that arise from catastrophe risk and these include:
  - Natural catastrophes which includes anything which is caused by a natural process, including earthquakes and hail storms.
  - Man-made catastrophes which are events that arise as a consequence of actions by humans.

The group conducts business in different classes of short-term insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (see Guardrisk Insurance section for cell captive classes of business):

- Motor: Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs and includes a reinsurance policy in respect of such a policy.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property and includes a reinsurance policy in respect of such a policy.
- Accident and Health: Provides policy benefits if a disability event, health event or death event occurs and includes a reinsurance policy in respect of such a policy.
- Liability: Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- Transportation: Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed and includes a reinsurance policy in respect of such a policy.
- Miscellaneous: Provides policy benefits relating to any matter not otherwise provided for and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia legal expense insurance.

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

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

46 GUARDRISK

Introduction

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

Nature of business

Guardrisk is principally engaged in both short-term and long-term insurance and related insurance management activities. It transacts in all classes of short-term insurance business, primarily as a cell captive and alternative risk transfer insurer, focusing on both the corporate and retail market. Guardrisk was also South Africa's first cell captive long-term insurer, and is licensed to underwrite assistance, disability, fund, health, life policies and sinking fund policies (ie endowments), also primarily as a *cell captive* and alternative risk transfer insurer.

There are currently two distinct types of *cell captive* arrangements, being:

- "First-party" cell arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- "Third-party" cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products or the on selling of insurance products through contracted independent intermediaries. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.

The "promoter cell" will exclude all assets and liabilities of the first and third-party cell arrangements.

All agreements for services provided in respect of third-party arrangements are transacted between Guardrisk and the third party. All transactions with third parties and policyholders are recorded in the income statement, with the third-party cell owner being a reinsurer of the net result. The impact of this application on the group's financial statements is that the results of the cell captive arrangements have no direct impact on the group's earnings, except for fee income earned by the promoter cell.

Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a performance bonus to the insured based on claims experience and related expenses at the end of the policy period.

In a limited number of cases, the promoter cell acts as reinsurer for certain cells. The promoter generally retains a portion of the risk related to that book of business and further reinsures the remainder of the risk to external reinsurers. The promoter cell earns underwriting profits on the risk retained.

The group's income statement includes several income and expense items related to insurance business written through cell arrangements. In particular all transactions relating to third-party cell arrangements are recorded. However, these transactions are transferred back to the third-party cell owner. Also assets and liabilities from *cell captive* arrangements are recognised in the statement of financial position. Except for the impact of contingency policies, as well as the fees earned by the promoter cell and income on the promoter cell's own assets, cell arrangements have no impact on the group's earnings.

Risk management

The Guardrisk business is exposed to insurance risk. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, Guardrisk has the right to refuse to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle Guardrisk to pursue third parties for payment of some or all costs (eg subrogation).

The underwriting strategy is directed at a portfolio of underwritten risks that are well diversified in terms of risk, industry and geography.

Cell captive arrangements

The cell owner shareholders' agreements protect the group from losses arising from business conducted in cells due to the recapitalisation clause. This solvency risk is measured on a monthly basis and, if required, additional capital is requested from the cell owners. The group's exposure to risk on this business is limited to the credit risk of the cell owner, if a cell owner does not recapitalise in terms of the cell owner shareholders agreement, with respect to third-party cell arrangements.

46 GUARDRISK *continued*

Risk management *continued*

Cell captive arrangements *continued*

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

Contingency policy business

This business is usually written for a one-year period with the policies covering multiple risks. The risks underwritten are those of a corporate entity (ie first-party business) and are generally either in respect of primary layers of the corporate's insurance programme or for risks that are difficult to insure in a traditional insurance product. The corporate insured in a contingency policy is entitled to a share in the underwriting result if there is favourable claims experience.

Actuarial input is received to establish suitable policy and cover limits as well as retention limits for reinsurance where applicable. Reinsurance is generally structured above the layer provided by the contingency policy.

There is an aggregate excess of loss treaty in place for all contingency policies. This reinsurance treaty is currently arranged for a limit of R15 million each and every loss in excess of R1 million each and every loss up to R5 million in the annual aggregate.

Risk participation with cell shareholders

Guardrisk, through the promoter cell, shares in the emerging underwriting experience of selected cell arrangements. Guardrisk carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each selected cell participation.

Terms and conditions of non-life insurance contracts

Non-life insurance business is transacted across all eight categories of permissable authorisation classes as defined by the Short-term Insurance Act, 53 of 1998. The terms and conditions of Guardrisk's insurance contracts are in accordance with its license conditions as set out below.

Insurance is provided to corporate clients (through first-party cells and contingency policies) and to the general public (through third-party cell owners). Insurance contracts are issued for monthly, annual and multi-year periods and include the following classes of risk:

Property – Provides policy benefits for an event relating to the use, ownership, loss of or damage to movable or immovable property and includes a reinsurance policy in respect of such policy.

Accident and Health – Provides policy benefits if a disability event, health event or death event occurs and includes a reinsurance policy in respect of such a policy.

Motor – Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs and includes a reinsurance policy in respect of such policy.

Engineering – Provides policy benefits for risks relating to the possession, use or ownership of machinery or equipment other than a motor vehicle, in the carrying on of a business, the erection of buildings or other structures or the undertaking of other works or the installation of machinery or equipment and includes a reinsurance policy in respect of such a policy.

Guarantee – Provides policy benefits relating to the failure of a person to discharge an obligation when it occurs and includes a reinsurance policy in respect of such a policy.

Liability – Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.

Transport – Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs; and includes a reinsurance policy in respect of such a policy.

Miscellaneous – Provides policy benefits relating to any matter not otherwise provided for and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia legal expense insurance.

Multi-year risk insurance programmes are insurance policies where maximum cover is provided at inception of the policy with premiums payable at inception and in future periods. The group's exposure to risk on this business (relating to first-party cell arrangements and contingency policies) is limited to the credit risk of the policyholder. The credit risk is substantially reinsured by a panel of participating reinsurers.

46 GUARDRISK *continued*

Risk management *continued*

Terms and conditions of life insurance contracts

Short-term life insurance contracts – These contracts generally consist of personal accident cover providing death, disability and retrenchment benefits in the event of an accident. Benefit payments are fixed and payable on the occurrence of the specified insurance event.

Long-term insurance contracts with fixed and guaranteed terms – These contracts insure events associated with human life (eg credit life or health insurance contracts) over a long duration.

Long-term insurance contracts without fixed terms – These contracts insure events associated with human life (eg post-retirement medical aid and health insurance contracts) over a long duration.

General risk overview

Guardrisk has a risk committee. This committee considers both underwriting and counterparty exposures in order to minimise risks of non-performance on portfolios as well as to clarify risk obligations with clients. The committee also reviews the appropriateness and viability of major product development initiatives to confirm regulatory, legal, tax and accounting standards.

For each cell or policy accepted by Guardrisk, an actuarial analysis is undertaken to determine major exposures to insurance risk. This analysis varies in extent and detail depending on the significance of the new cell facility. For significant down-side risk this analysis includes stochastic modelling of past claims and the projection, at different confidence levels, of future scenarios.

Each new risk is considered by the underwriting and actuarial teams and where necessary adjustments are made to the theoretical premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

Reinsurance

The key objective when placing reinsurance is to optimise capital requirements and protection of the retained lines of both Guardrisk and the cell owners.

The reinsurers selected are in accordance with Guardrisk's reinsurance vetting procedures. These are presented to and approved by the Guardrisk board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

Other than sourcing capacity for both first and third-party business, reinsurance is arranged to protect the net retention of the promoter on both a proportional and non-proportional basis. The net retention of both Guardrisk and the cells will determine the non-proportional programmes whereas estimated premium income and loss ratios determine retention on proportional programmes. The non-proportional reinsurance arrangements include per risk excess-of-loss, stop-loss and catastrophe coverage. Proportional reinsurance arrangements include quota share and surplus treaties.

Concentrations of insurance risk

Risks relating to the Guardrisk business are adequately spread across the major classes of insurance risk.

Credit risk

The Guardrisk business has exposure to credit risk (relating to financial assets, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance policyholders and amounts due from insurance intermediaries), which is the risk that a counterparty will be unable to pay amounts in full when due. A unique key area where the group is exposed to credit risk is with regards to the cell shareholders' obligation to restore solvency of cells when required.

The relationship between Guardrisk and its cell owner shareholders is governed by the cell owner shareholders agreement entered into between Guardrisk and the cell shareholder. This agreement determines that the cell owner shareholder has the obligation to restore any capital deficit in its cell on receipt of such a demand from Guardrisk. Guardrisk can demand recapitalisation of a cell in the event of the solvency ratio of the cell falling below the ratio required by the regulator or if the shareholders funds reflect a deficit. Claims of first and third-party cells will be paid in terms of the policy. If the cell is in a deficit position after the claim, a request will be made to recapitalise the cell. However, in the case of first-party cells, the claims are further limited to the policy limits.

46 GUARDRISK *continued*

Risk management *continued*

Credit risk *continued*

This risk is managed by a detailed assessment of potential cell shareholders' creditworthiness based on the ability to meet the responsibility and obligations in terms of the shareholders agreement. Solvency of the cell is assessed monthly, to ensure that the cell shareholders have the ability to fund additional capital, if requested from them. The solvency of the cell and past requests that have been made to the cell owner to recapitalise the cell has been used as a basis to test impairment.

However, in the history of Guardrisk, there have never been any incidents of cell owner's or reinsurer's failure.

47 FINANCIAL RISK INHERENT IN CONSOLIDATED COLLECTIVE INVESTMENT SCHEMES AND FUND OF ALTERNATIVE FUNDS

The group consolidates a number of collective investment schemes and fund of alternative funds as a result of exercising control over these schemes, and the MMI risk management framework is therefore applicable to the risk management of the schemes. Refer to Annexure A for information on the schemes consolidated.

Because of the specific nature of the business of the schemes, the risk management principles may be applied differently to managing the risks relevant to the schemes from how the overall financial risks are managed. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company of the scheme has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolio risk appetites over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the chief operating officer of the management company.

When considering any new investment for a scheme, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio level. The scheme mandate is also assessed.

A portfolio market risk appetite is measured as a function of current market conditions and a benchmark, which translates into a targeted tracking error that is monitored by the independent risk unit.

Credit and liquidity risk are mitigated through diversification of issuers in line with the policy. All amounts disclosed include amounts attributable to the consolidated collective investment schemes and fund of alternative funds.

The collective investment schemes not consolidated are included in Annexure B as Collective investment schemes and Investments in associates designated at fair value through income.

48 LIQUIDITY RISK

Liquidity risk governance

Liquidity risk for the group is managed in terms of the group liquidity risk management policy, which is a policy of the group enterprise risk management function.

The executive Balance sheet management committee (executive BSM) is responsible for the group's liquidity and funding risk management with the BSM Advisory Committee providing oversight and non-executive advisory support for funding and liquidity risk assumed in the group's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities, and shareholder portfolios.

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

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 85% (2014: 87%) of the liabilities of the group. Management of the liquidity risk thereof is described on the following page in terms of policyholder benefits.

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Policyholder liabilities

Guaranteed policyholder benefits

Guaranteed endowments, structured products and annuities have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when the liabilities become payable. The liquidity risk arising from the liabilities in respect of embedded investment guarantees (APN 110 liability) is managed by backing these liabilities with sufficiently liquid financial instruments.

Non-profit annuities' policyholder benefits

These contracts provide guaranteed annuity benefits and all liquidity risks arising from these contracts are borne by the shareholders. The expected liability outflow is matched as closely as possible with assets of an appropriate nature and term in order to match the duration and convexity of the portfolio and thus mitigate the interest rate risk exposure. The liquidity risk is thus mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term. The asset portfolio is a diversified portfolio of liquid cash and fixed-interest instruments (government bonds, corporate bonds, interest rate swaps and promissory notes) that closely matches the liquidity profile of the liability cash flow and this mitigates the liquidity risk.

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon the contractual claim (maturity and risk benefit claim) of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Maturity dates are normally known in advance and contractual claims are projected. Cash flow projections are performed to aid in portfolio and cash flow management. Where the product design allows for the payment of an early termination value (ie a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the group's discretion (subject to certain minima prescribed by legislation). This limits the loss on early termination. If underlying assets are illiquid, the terms of the policy contract normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is contracting (ie outflows exceed inflows), care is taken to ensure that the investment strategy and unit pricing structure of the fund are appropriate to meet liquidity requirements (as determined by cash flow projections). In practice, such a fund is often merged with cash flow positive funds to avoid unnecessary constraints on investment freedom.

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liabilities compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows from which claims can be paid. Accrued liabilities are matched by liquid assets to meet cash outflows in excess of expected inflows.

On certain large corporate policy contracts, the terms of each individual policy contract take into account the relevant liquidity requirements. Examples of such contractual provisions include the payment of benefits *in specie*, or a provision for sufficient lag times between the termination notification and the payment of benefits.

These contracts provide guaranteed annuity benefits and all the liquidity risk that arises is borne by the group. The liquidity risk is mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term.

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares issued by MMI Holdings Ltd, the carry positions, the subordinated call notes issued by MMIGL and the cumulative redeemable preference shares issued by MMI Strategic Investments (Pty) Ltd.

The group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restricts exposure to high quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the executive BSM. The regular reports take the expected shareholder cash flows (eg committed mergers and acquisition activity and liquidity needs of related entities) into account in order to identify material funding liquidity gaps early. By determining the potential liquidity gaps, the funding liquidity and market liquidity risks of the shareholder portfolios are mitigated.

Liquidity profile of assets

The following table illustrates that the group's assets are fairly liquid in order to meet the liquidity needs of obligations if the group should be required to settle earlier than expected:

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

1 Highly liquid assets are those that are considered to be realisable within one month (eg level 1 financial assets at fair value, including funds on deposit and other money market instruments > 90 days, cash and cash equivalents), the current values of which might not be realised if a substantial short-term liquidation were to occur due to demand-supply principles.

2 Medium liquid assets are those that are considered to be realisable within six months (eg level 2 and level 3 financial assets at fair value, except for funds on deposit and other money market instruments > 90 days, loans and receivables, insurance receivables, reinsurance contracts).

3 Low/illiquid assets are those that are considered to be realisable in excess of six months (eg intangible assets, investment and owner-occupied properties, property and equipment, equity-accounted associates).

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities

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

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

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

Notes to the maturity profile of liabilities table:

[1] Open-ended liabilities are defined as:
- policies where the policyholder is entitled to the benefit at any future point (benefits are contractually available on demand) or
- where policies do not have a specified contract term.

[2] The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted expected cash flows. All other values are based on contractual undiscounted cash flows.

[3] Cash flows for derivative financial instruments have been disclosed on a net basis on page 207.

[4] Other payables exclude premiums paid in advance and deferred revenue liabilities.

[5] Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

Cash flows relating to policyholder liabilities under insurance and investment contracts (current in-force book) have been apportioned between future time periods in the following manner:

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 17.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 27 June 2017. It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost

- It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- The subordinated redeemable debt was redeemed on 15 December 2014.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R489 million (2014: R463 million). Interest on the loan is levied at the prime rate minus 1%. The interest is repaid monthly with the capital balance payable in December 2025. The loan is secured by the underlying property.

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

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

48 **LIQUIDITY RISK** *continued*

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated statement of financial position. The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

Some of the group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

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

49 MARKET RISK

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

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

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

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

Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held.

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

- the policyholder carries the majority of the market risk; while
- the group carries a risk of investment guarantees provided and of a reduced income from fees where these are based on investment returns or the underlying fund value or where investment conditions affect its ability to recoup expenses incurred.

Furthermore, MMI is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

For non-profit business (including annuities) and in respect of the net asset value, shareholders carry the market risk.

49 MARKET RISK *continued*

Market risk governance

Shareholder market risk is managed according to the MMI Shareholder Asset and Liability Management (ALM) Policy while the Client Investment Management Policy governs the management of policyholder market risk.

The executive BSM is responsible for the group's market risk management, with the board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

The MMI Policyholder Investment Committee provides oversight over the management of policyholder market risk. Policyholder market risk is managed through various management-level governance committees established for this purpose. The committees monitor the performance of investment portfolios against client outcome requirements. This includes consideration of the appropriateness of the matching of assets and liabilities of the various policyholder portfolios where policyholder benefits are impacted by investment returns.

For contract holder liabilities, the financial instruments backing each major line of business are segregated to ensure that they are used exclusively to provide benefits for the relevant contract holders. The valuation of these financial instruments is subject to various market risks, particularly interest rate and price risk. Each portfolio consists of an asset mix deemed appropriate for the specific product. These risks and the group's exposure to equity, interest rate, currency and property price risks are discussed and disclosed below.

Market risk management per product

Individual and group contracts with discretionary participation features (DPF)

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. Separate investment portfolios are managed for each product.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, reasonable policyholder expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a bonus stabilisation account (BSA) for future distribution to policyholders.

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- An additional BSA is held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation accounts described elsewhere, and is not distributed to policyholders other than in very extreme circumstances.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with discretionary participation features (DPF) and continuous guarantees

Certain portfolios provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but for group contracts, allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Derivative instruments are used to minimise downside market risk in these portfolios.

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

49 MARKET RISK *continued*

Market risk management per product *continued*

Market-related/unit-linked business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk; however, the group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the group's investment managers, which is supported by technical as well as fundamental analysis.

Individual contracts offering investment guarantees

The group has books of universal life business that offer minimum maturity values, based on a specified rate of investment return. These guaranteed rates range from 0% to 4.5% p.a. for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios (the latter mostly closed to new business). On some smoothed bonus portfolios, there is also a guarantee to policyholders that the average annual bonus rate, measured over the lifetime of the contract, will not be less than a contractual minimum (around 4.5% p.a.). There is also a portion of universal smoothed bonus fund values that is deemed vested and thereby constitutes an additional form of investment guarantee. Similarly, on reversionary bonus business, an investment guarantee in the form of sum assured and declared reversionary bonuses is given.

The group also carries conventional business that offers minimum guarantees on maturity, surrender and death, with different forms of guarantees that apply in each event.

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge for these policies is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only to specific terms.

On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms. The minimum increase represents an inflation related embedded financial guarantee.

The risk of being unable to meet guarantees is managed by holding a specific liability, as well as additional statutory capital, for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, in accordance with actuarial guidance (APN 110). Stochastic modelling is used to quantify the reserves and capital required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The stochastic model is calibrated to market data. The shareholders' exposure to fluctuations in this liability is mitigated by the use of hedging strategies, subject to available instruments and the overall risk profile of the business.

Non-profit annuity business

An annuity policy pays an income to the annuitant in return for a lump sum consideration paid on origination of the annuity policy. Income payments may be subject to a minimum period. The income may be fixed or increase at a fixed rate or in line with inflation.

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R60 million (2014: R6 million) for MMIGL.

The liability valuation calculation for MMIGL annuities is based on the risk-free yield curve. The average rate that produces the same result is 8.9% (2014: 9.0%).

49 MARKET RISK *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

The group issues guaranteed endowment policies – the majority of these contracts are five-year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The obligation is hedged by investing in assets that will provide the required yield at the relevant date and term.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets and the risk of the offshore indices is generally hedged through equity-linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the group's reinsurance policies.

Other non-profit business

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives.

Individual life investment products

The expected future charges, expense outgo and risk benefit payments (including margins) on investment business are capitalised using a long-term interest rate. The resultant discounted value is added to liabilities (an offset to liabilities when negative). The group is therefore subject to interest rate risk as any changes in long-term interest rates will result in a change in the value of liabilities.

49.1 Market risk management per risk factor

Equity risk

Equity risk is the risk of financial loss as a result of adverse movements in the market value of equities, implied volatility and/or income from equities.

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

The group manages its listed equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long-term Insurance Act, 52 of 1998;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the MMI unlisted investments board, represented by the specialist investment professionals and independent MMI representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to sensitivity analysis in note 49.5.

49 MARKET RISK *continued*

49.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the group's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest-bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

Instrument class 2015	Carrying value Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
Designated at fair value through income					
Debt securities	**104 176**	**36 443**	**64 638**	**3 095**	**7.4**
Funds on deposit and other money market instruments	**24 473**	**20 992**	**3 481**	**–**	**6.6**
Derivative financial assets	**2 033**	**–**	**2 033**	**–**	**N/A**
Derivative financial liabilities	**(2 111)**	**–**	**(2 111)**	**–**	**N/A**
Held-to-maturity					
Funds on deposit and other money market instruments	**42**	**–**	**42**	**–**	**10.0**
Debt securities	**31**	**–**	**31**	**–**	**6.4**
Cash and cash equivalents	**26 174**	**21 137**	**4 762**	**275**	**3.7**
Loans and receivables	**7 652**	**1 544**	**933**	**5 175**	**5.2**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 859**	**516**	**193**	**3 150**	**–**
	166 329	**80 632**	**74 002**	**11 695**	
Restated **2014**					
Designated at fair value through income					
Debt securities	88 788	31 745	53 663	3 380	6.9
Funds on deposit and other money market instruments	24 941	21 012	3 929	–	6.9
Derivative financial assets	2 362	–	2 362	–	N/A
Derivative financial liabilities	(1 853)	–	(1 853)	–	N/A
Available-for-sale					
Debt securities	31	31	–	–	6.0
Held-to-maturity					
Funds on deposit and other money market instruments	85	85	–	–	6.9
Debt securities	15	15	–	–	6.0
Cash and cash equivalents	28 875	26 920	1 197	758	3.8
Loans and receivables	5 586	1 017	584	3 985	6.9
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 669	22	8	3 639	–
	152 499	80 847	59 890	11 762	

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

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

49 MARKET RISK *continued*

49.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the group's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the South African Reserve Bank.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table below as the look-through principle was not applied.

Assets and liabilities denominated in Namibian dollar, Lesotho maluti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not form part of the currency risk of the group. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the group, are included in the group's statement of financial position at 30 June:

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

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

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

The assets above generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

African exchange rates representing material balances above are:

Closing exchange rate	Botswana	Ghana	Kenya	Nigeria
2015	**1.2332**	**2.7949**	**0.1228**	**0.0618**
2014	1.2062	3.4072	0.1212	0.0652

49.4 Property risk

Property risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

The group's exposure to property holdings at 30 June is as follows:

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

Refer to note 4 for the concentration risk regarding types of properties relating to investment properties. Owner-occupied properties mainly comprise office buildings.

The group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2015. The carrying amount of unlet and vacant investment property as at 30 June 2015 was R553 million (2014: R301 million).

49 MARKET RISK *continued*

49.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to insurance and market risks. The group has identified that changes in insurance risk, equity prices and interest rates have the most significant effect on earnings and equity. Refer to note 17 for sensitivities around insurance risk. The table below provides the sensitivity to a change in equity prices by 10% and a change to long-term interest rates by 100 basis points.

	Equity prices		Interest rates	
2015	**Increase by 10% Rm**	**Decrease by 10% Rm**	**Increase by 100 bps Rm**	**Decrease by 100 bps Rm**
Increase/(decrease) in earnings per income statement	**414**	**(407)**	**63**	**(63)**
Increase/(decrease) in equity	**645**	**(639)**	**63**	**(63)**
Restated 2014				
Increase/(decrease) in earnings per income statement	304	(305)	8	(12)
Increase/(decrease) in equity	561	(563)	8	(12)

2014 reclassification

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

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date.
- These limits are set taking into account actuarial guidance relating to acceptable ranges of sensitivities within a normal asset distribution. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with MMI's current practice and accounting policy, the investment variances from insurance contracts were stabilised.
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Hedging strategies using derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched within approved risk limits and tolerances and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the group is not considered to be material. Refer to note 49.3 for more details on the group's currency exposure.

50 CREDIT RISK

Credit risk refers to the risk of loss, or of adverse change in the financial position, resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation or due to deterioration in the financial status of the counterparty and any debtors to which shareholders and policyholders are exposed.

Credit risk could also arise from the decrease in value of an asset because of a deterioration of creditworthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, available-for-sale debt securities, held-to-maturity investments, reinsurance debtors, loans to policyholders and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk. Where instruments are held in *cell captive* arrangements, where the cell owner takes the risk, the credit risk is also transferred.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive BSM charter. The primary responsibility of the executive BSM is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product approval committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and policyholder investment committees are responsible for monitoring the performance.

The executive BSM is a sub-committee of the group executive committee. This committee reports to the group's executive committee on the effectiveness of credit risk management and provides an overview of the group's shareholder credit portfolio. The executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the group credit exposure. This includes the monitoring of the following:

- quality of the credit portfolio
- stress quantification
- credit defaults against expected losses
- credit concentration risk
- appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Balance Sheet Management committee of the board (board BSM committee).

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the group's credit risk appetite.

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

- the underlying nature of the instrument and credit strength of the counterparty
- the credit rating of the issuer, either internally generated or external from either Fitch, Moody's, S&P or GCR
- current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which includes:

- the use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof
- preparing credit applications and performing annual reviews.

Regular risk management reporting to the executive BSM includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

50 CREDIT RISK *continued*

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the board BSM committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to Annexure B for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The group enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the group's credit risk exposure policy. For OTC interest rate swaps, the group enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending

The group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

Scrip lending agreements are governed by GMSLA agreements.

The main risk in scrip lending activities is the risk of default by the borrower of securities, ie the borrower fails to return the borrowed securities. Borrower default risk is mitigated by either requiring borrowers to post adequate levels of high-quality collateral and/or by the use of indemnity guarantees from the borrowers.

Where collateral is received, the group monitors collateral levels on a daily basis and the status of collateral coverage is reported to the executive BSM on a quarterly basis. This collateral serves as security for the scrip lending arrangements in the event of default by the borrowers. Where the borrower default risk is mitigated by means other than collateral, the group monitors the counterparty credit exposure to be within approved limits and the group ensures that credit risk capital is held against counterparty credit exposure.

Loans and receivables

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the group's new business premiums arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

An impairment of commission debtors is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans

The group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy as determined in accordance with the accounting policies.

Policy loans are secured by policies issued by the group. In terms of the regulations applicable to the group, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the group owns.

50 CREDIT RISK *continued*

Loans and receivables *continued*

Reinsurance

The group only enters into reinsurance treaties with reinsurers registered with the FSB. The credit rating of the company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

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

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

Financial assets and liabilities designated at fair value through income

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

The current year and cumulative fair value movements in these instruments were mainly due to market movements. The current year fair value movement includes R69 million loss attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market). The fair value movement attributable to credit risk for the prior year was not considered significant.

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

50 CREDIT RISK *continued*

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

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

Security and credit enhancements

In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments

For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the group's credit risk exposure policy described above.

Debt securities

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

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R936 million (2014: R1 121 million), is secured by direct properties. The market value of the properties exceed the fair value of the rentals.

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R953 million at 30 June 2015 (2014: R1 159 million).

Transfers of financial assets

The group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements (refer note 18). Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

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

50 CREDIT RISK *continued*

Security and credit enhancements *continued*

Offsetting

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

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

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

Loans and receivables

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

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

Other receivables

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

50 CREDIT RISK *continued*

Credit quality

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

Rating definitions

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

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

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

50 CREDIT RISK *continued*

Credit quality *continued*

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

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

50 CREDIT RISK *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the group has reinsured (included in Other receivables) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

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

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

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

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

51 VALUATION TECHNIQUES

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

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

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

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

Instruments classified as level 1 have been valued using published price quotations in an active market and include the following classes of financial assets and liabilities:

- Local and foreign listed equity securities
- Stock and loans to government and other public bodies, excluding stock and loans to other public bodies listed on the JSE interest rate market
- Local and foreign listed and unlisted quoted collective investment schemes (this also refers to the related collective investment scheme liabilities)
- Derivative financial instruments, excluding over-the-counter (OTC) derivatives.

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to pages 229 to 233 for details of the instruments split into the different levels.

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
– Listed, local and foreign	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
Stock and loans to other public bodies		
– Listed, local	Yield of benchmark (listed government) bond	Market input
– Listed, foreign	Discounted cash flow (DCF), benchmarked against similar instrument with the same issuer	Market input
– Unlisted	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread

51 VALUATION TECHNIQUES *continued*

Instrument	Valuation basis	Main assumptions
Other debt securities		
– Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	External valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, bank and credit default swap curves, government bond yield curve plus a spread, three-month JIBAR plus fixed spread), external valuations, NAV of a hedge fund	Market input and appropriate spread
Funds on deposit and other money market instruments		
– Listed	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
Subordinated call notes (Liability)	Price quotations on JSE interest rate market (which are based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input
Preference shares (Liability)	Capital outstanding plus accrued dividends	Contract input

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

51 VALUATION TECHNIQUES *continued*

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

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Securities designated at fair value through income				
Equity securities				
Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
	Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities				
Stock and loans to government and other public bodies				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	Discounted cash flow	Nominal interest rate	8.51% to 9.99% (2014: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments				
Local listed	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets, the greater the fair value
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	Discounted cash flow	Nominal interest rate	6.73% to 10.69% (2014: 5.80% to 10.04%); 7.38% to 13.09% (2014: 6.75% to 14.01%)	The higher the nominal interest rate, the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value

51 VALUATION TECHNIQUES *continued*

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

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation

Financial liabilities	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities designated at fair value through income				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	Discounted cash flow	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted embedded value	Could vary significantly based on the risks associated with the investee	The higher the embedded value, the greater the fair value

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

51 VALUATION TECHNIQUES *continued*

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

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

[1] Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price. ABIL retention funds have been classified as level 3.

51 VALUATION TECHNIQUES *continued*

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

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

[2] Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

51 VALUATION TECHNIQUES *continued*

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

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

[1] Includes funds on deposit and other money market instruments.

[2] The group's holdings in the various debt and equity instruments of ABIL, and its various subsidiaries, were transferred from levels 1 and 2 to 3 on 1 January 2015, subsequent to the placing into curatorship of the African Bank Group and the suspension of these securities by the JSE Ltd.

51 VALUATION TECHNIQUES *continued*

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

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

The amount of total gains or losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R339 million (2014: R1 556 million) for the group.

51 VALUATION TECHNIQUES *continued*

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

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

1 June 2015 includes funds on deposit and other money market instruments.

2 For the sensitivities relating to Owner-occupied properties and Investment properties, please refer to note 2 and note 4 respectively.

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

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

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

51 VALUATION TECHNIQUES *continued*

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

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

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

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

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

51 VALUATION TECHNIQUES *continued*

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

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

Calculation of fair value

- For accounts receivable, cash and cash equivalents and receivables arising from investment contracts, the carrying value approximates fair value due to their short-term nature.
- The fair value of loans to empowerment partners of R328 million (2014: R346 million) is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 12% (2014: 12%).
- For policy loans, the fair value of R1 258 million (2014: R1 451 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 8.6% (2014: 8.5%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

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

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

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which is a reasonable approximation to the fair value of this financial liability.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. *(level 2)*
- The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The debt was redeemed during the current year. *(level 2)*
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

52 JUNE 2014 RECLASSIFICATIONS

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

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

The above reclassifications had the following impact:

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

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

The above reclassification had the following impact:

	As previously reported Rm	Reclassi-fication Rm	Restated 2014 Rm
Statement of financial position			
Reinsurance contract assets	**2 576**	202	**2 778**
Reinsurance contract liabilities	**–**	202	**202**

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

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

The above reclassification had the following impact:

	As previously reported Rm	Reclassi-fication Rm	Restated 2014 Rm
Notes to the financial statements			
Securities designated at fair value through income			
Debt securities – other debt instruments – unlisted	**24 224**	4 937	**29 161**
Funds on deposit and other money market instruments	**29 878**	(4 937)	**24 941**

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

	As previously reported Rm	Reclassi-fication Rm	Restated 2014 Rm
Interest rate risk			
Debt securities			
Cash flow interest rate risk	**29 136**	2 609	**31 745**
Fair value interest rate risk	**51 335**	2 328	**53 663**
Funds on deposit and other money market instruments			
Cash flow interest rate risk	**25 949**	(4 937)	**21 012**