

momentum

 **METROPOLITAN**



**Momentum Metropolitan
Life Limited
Annual financial
statements**

30 June 2019

**MOMENTUM METROPOLITAN LIFE
LIMITED**
(PREVIOUSLY MMI GROUP LIMITED)

**ANNUAL FINANCIAL
STATEMENTS**

30 June 2019

MOMENTUM METROPOLITAN LIFE LIMITED

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DIRECTORS' RESPONSIBILITY AND APPROVAL

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

To enable the directors to meet these responsibilities:

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

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

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, and the Insurance Act 2017, and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

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

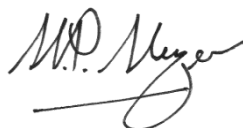
It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 12.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the board of directors on 3 September 2019 and are signed on its behalf by:



JJ Njeke
Chairman
Centurion, 3 September 2019

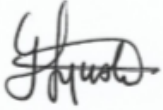


HP Meyer
Chief executive officer
Centurion, 3 September 2019

DIRECTORS' RESPONSIBILITY AND APPROVAL

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2019 the company has lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.



Gcobisa Tyusha
Company secretary
Centurion, 3 September 2019

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of Momentum Metropolitan Holdings Ltd (MMH), the company's ultimate holding company, acts as the audit committee for the company. The MMH Audit Committee is an independent statutory committee appointed by the shareholders.

We are pleased to present our report for the financial year ended 30 June 2019.

External audit quality and independence

PricewaterhouseCoopers (PwC), together with Andrew Taylor, as the designated auditor, satisfactorily fulfilled their responsibilities as the external auditors and designated auditor, respectively, during the financial year.

In accordance with Section 94(8) of the Companies Act, the MMH Audit Committee was satisfied with the independence and objectivity of PwC in carrying out their duties as external auditors. Requisite assurance was sought and provided by the external auditor that the internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The MMH Audit Committee considered the matter of mandatory audit firm rotation. Based on a number of considerations relevant to the group the MMH Audit Committee agreed to rotate the audit firm earlier than the required date.

On the recommendation of the MMH Audit Committee and following an extensive selection process, the Board approved the appointment of new external auditors for the 2020 financial year. PwC will retire as the auditors of Momentum Metropolitan on conclusion of its external audit responsibilities for the year ended 30 June 2019, which is expected to be at the conclusion of the company's annual general meeting to be held on 26 November 2019. Shareholders will be informed who the new external auditors are once all regulatory approvals have been obtained. The change of external audit firm will be tabled for approval at the company's next annual general meeting.

The MMH Audit Committee records its appreciation to PwC, and particularly the partners and employees who have been part of the Momentum Metropolitan Group audit teams, for their service and dedication over many years.

Internal audit

Otsile Sehularo, Chief Audit Executive (CAE) oversees the Group Internal Audit (GIA) and the internal audit co-sourced relationship with KPMG. The MMH Audit Committee annually assesses the performance of the CAE and GIA and remains satisfied that the co-sourced GIA model with KPMG results in the appropriate independence of GIA; access to subject matter assurance expertise; and the authority to fulfil its duties as per its mandate, which is outlined in the GIA charter. The charter and the risk-based GIA plan is reviewed annually and approved by the MMH Audit Committee. Progress in terms of the GIA plan is monitored by the MMH Audit Committee.

Internal financial controls (IFC)

The MMH Audit Committee has carried out its responsibilities with the support of the combined assurance forums that represent the various operating structures within the group. The Combined Assurance Forums report to the MMH Audit Committee every quarter. Through the Combined Assurance Forums, the MMH Audit Committee was able to assess that the review of the design, implementation and effectiveness of the group's combined IFC was performed in all material segments of the business. The MMH Audit Committee is comfortable that the internal financial controls are adequate to support the integrity of the preparation and presentation of the annual financial statements.

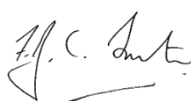
Financial statements

The MMH Audit Committee reviewed the financial statements of the company for the year ended 30 June 2019 and submits that management presented an appropriate view of the company's position and performance. The MMH Audit Committee considers that the company's accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards.

Going concern

The MMH Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and has made a recommendation to the Board in accordance with this assessment. No going concern issue was noted.

Additional details in relation to the MMH Audit Committee can be found in the Momentum Metropolitan Integrated Report, which is available on the group's website www.momentummetropolitan.co.za.



FJC Truter

Chairman of the MMH Audit Committee
Centurion, 3 September 2019

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

Published basis Rm	Notes	30 June 2019	30 June 2018
Total assets per company balance sheet	1	404 040	392 119
Total liabilities per company balance sheet	2	388 729	377 962
Liabilities under insurance contracts		104 435	98 009
Liabilities under investment contracts		259 409	258 529
Current and other liabilities		20 454	17 050
Unsecured subordinated debt	3	4 431	4 374
Excess of assets over liabilities		15 311	14 157
Statutory basis Rm		30 June 2019	30 June 2018
Total assets		390 772	380 717
Total liabilities		357 511	350 069
Basic own funds		33 261	30 648
Own funds eligible to meet SCR	6	32 297	29 851
Solvency capital requirement (SCR)		15 869	15 874
Excess own funds (SCR)		16 428	13 977
SCR cover pre-foreseeable dividend		2.08 x	1.93 x
SCR cover post-foreseeable dividend		2.04 x	1.88 x

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MOMENTUM METROPOLITAN LIFE LIMITED AS AT 30 JUNE 2019

1. VALUE OF ASSETS

The value of the assets on the published reporting basis is determined according to the accounting policies as set out in Annexure E. Equity investments in subsidiaries are included in the balance sheet at fair value.

2. VALUE OF LIABILITIES

The liability valuation methodology and assumptions under the published reporting basis are set out in the accounting policies and in note 16 to the financial statements.

3. UNSECURED SUBORDINATED DEBT

The unsecured subordinated debt is not reflected as a liability when determining the excess of assets over liabilities on the statutory basis as it is regarded as capital for statutory purposes.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

4. ANALYSIS OF CHANGE IN EXCESS OF ASSETS OVER LIABILITIES ON THE PUBLISHED REPORTING BASIS

Rm		30 June 2019	30 June 2018
Excess of assets over liabilities at end of the year		15 311	14 157
Excess of assets over liabilities at beginning of the year		14 157	17 000
Change in excess of assets over liabilities over the year		1 154	(2 843)
Rm	Notes	30 June 2019	30 June 2018
Operating profit (excluding basis changes)	4.1	2 303	1 458
Basis changes	4.2	(124)	(508)
Investment return of excess	4.3	764	628
Attributable earnings		2 943	1 578
Retained earnings adjustments		(16)	-
Revaluation of investments in subsidiaries		(61)	(1 446)
Revaluation of owner occupied buildings to fair value		(203)	54
Adjustments to defined benefit pension funds		-	13
Income tax relating to items that will not be reclassified		61	(11)
Movement in common control reserve		-	51
Dividends paid		(1 570)	(3 082)
Change in excess of assets over liabilities		1 154	(2 843)

Notes

4.1. Operating profit includes expected returns and capital releases on explicit discretionary margins. Momentum Metropolitan Life Limited holds explicit discretionary margins (in addition to discretionary margins implicit in policy liabilities) that serve as a buffer against the impact of market fluctuations on the assets backing those fixed liabilities that cannot be perfectly matched. Expected investment returns and a portion of the capital amount on these margins have been released to earnings in the 12 months ended 30 June 2019 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

4.2. The basis changes consist of the following items:

Rm	30 June 2019	30 June 2018
Economic assumptions ¹	78	15
Maintenance expense assumptions ²	(32)	(603)
Mortality and morbidity assumptions ³	180	(20)
Termination assumptions ⁴	(196)	(474)
Methodology changes ⁵ and other items	(154)	574
Total	(124)	(508)

1. Economic assumption changes are transferred to the investment stabilisation account in accordance with accounting policies. The balance relates to changes in the allowance for assumed tax relief on expenses.
2. Maintenance expense assumptions have been revised based on the budgeted expenses for the year ending 30 June 2019 and expected business in-force over 2019 financial year.
3. Assumed mortality and morbidity rates were reviewed consistent with recent experience investigations.
4. The termination basis has been strengthened in line with recent experience investigations. The most significant items relate to a reduction in later duration assumed termination rates of retail risk business.
5. Various modelling and methodology changes were made. The most significant items relate to the revision of the allowance for Multiply premium discounts on retail risk business; a revision of the retail risk valuation

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

methodology and discount rate following changes in the assumed asset mix supporting the business; and a revision of the IBNR reserving methodology on corporate risk business in line with recent investigations.

4.3. Investment income of R764m (June 2018: R628m) includes dividends of R210m (30 June 2018: R177m) received from strategic subsidiaries.

5. RECONCILIATION BETWEEN EXCESS OF ASSETS OVER LIABILITIES ON THE PUBLISHED REPORTING BASIS AND THE STATUTORY BASIS

	Notes	30 June 2019	30 June 2018
Rm			
Excess of assets over liabilities on the published reporting basis		15 311	14 157
Remove deferred acquisition costs, goodwill and intangibles	5.1	(2 570)	(2 678)
Unsecured subordinated debt	5.2	4 431	4 374
Liability valuation differences	5.3	22 515	21 291
Increase in net deferred tax liabilities	5.4	(5 614)	(5 266)
Participations	5.5	(859)	(828)
Reinsurance assets	5.6	(349)	(283)
Other	5.7	396	(119)
Basic Own Funds		33 261	30 648
Restricted own funds	5.8	(313)	(77)
Foreseeable dividend	5.9	(651)	(719)
Own funds eligible to meet SCR		32 297	29 852

Notes:

- 5.1 Deferred acquisition costs (DAC), goodwill and intangible assets are excluded for statutory purposes in accordance with the prudential standards.
- 5.2 The subordinated debt issued by MML is regarded as a liability for IFRS purposes but as Own Funds for statutory purposes.
- 5.3 This is the difference between IFRS liabilities (best estimate plus planned and discretionary margins) and statutory liabilities (best estimate plus risk margin).
- 5.4 A deferred tax liability is raised on the difference between IFRS liabilities and statutory technical provisions.
- 5.5 For IFRS purposes, participations are mainly valued using Directors' Valuations. For statutory purposes, the prudential standards require the participation to be valued at net asset value less any goodwill or intangibles. Where the participation is an insurer, it is valued for statutory purposes at the value of Basic Own Funds.
- 5.6 The IFRS reinsurance asset is removed for statutory purposes and the reinsurance value calculated as part of the technical provisions is included as a reinsurance asset. In addition, Collective Investment Scheme assets backing linked reinsurance business are removed from investment assets and included in reinsurance assets for statutory purposes.
- 5.7 Other includes current assets and other liabilities. Deferred Revenue Liabilities and prospective commission liabilities are removed because they form part of statutory technical provisions.
- 5.8 Restricted Own Funds are surplus funds held within ring-fenced funds that are not available to cover any risks outside of that fund.
- 5.9 As per the prudential standards, foreseeable dividends must be excluded from Own Funds.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

6. CLASSIFICATION OF OWN FUNDS

	30 June 2019	30 June 2018
Rm		
Own funds eligible to meet SCR	32 297	29 851
Tier 1	27 866	25 477
Tier 2	4 431	4 374
Tier 3	-	-

7. LOSS ABSORBING CAPACITY OF TECHNICAL PROVISIONS (LACOTP)

The standardised formula SCR is calculated using a modular approach, whereby the capital requirement for each risk module is quantified as the effect on the basic own funds of a pre-defined shock scenario. The loss absorbing capacity of technical provisions refers to the ability of an insurer to apply management actions in response to the shock being tested, thereby reducing the impact on basic own funds. Categories of management actions used are briefly discussed below.

Discretionary participation business

Shareholder fee injection: this is a result of the sharing arrangement on the Lifegro business, where shareholders share in (approximately) 10% of investment growth, positive or negative. Hence this action increases SCR as an injection into the policyholder fund is required after a stress.

Positive Bonus Stabilisation Accounts (BSAs): to the extent to which they are available, they absorb part of the impact of a stress event before any further management actions are considered. This is not considered a management action, but does form part of the LACOTP.

Assumed under-declaration of bonuses on discretionary participation business: it is assumed that future bonus declarations will be less than assumed future investment returns to improve funding levels. The assumed under-declarations are in line with the principles and practices of financial management.

Removal of non-vesting bonuses (including undeclared terminal bonuses): the impact is limited to be no more than 10% of policyholder funds of the affected products.

Other management actions

Repricing: The contractual ability to re-price certain risk products, such as the Myriad range, in the event of unfavourable demographic experience was used as a management action in demographic stress. For the longevity stress, this results in an increased SCR after the stress.

Policy fees: In the expense stress event an increase in policy fees is modelled on some products after allowing for an implementation delay of one year.

Premium reviews: Allowance is made for repricing of voluntary premium growth on Myriad following certain stresses.

DIRECTORS' REPORT

The directors take pleasure in presenting the audited financial statements of the company, for the year ended 30 June 2019.

NATURE OF ACTIVITIES

Momentum Metropolitan Life Limited is a registered life insurance and financial services company that transacts in life, group schemes, employee benefits, health insurance products and administration services.

CORPORATE EVENTS

The company changed its name from MMI Group Ltd to Momentum Metropolitan Life Ltd (the Company). Resolutions were approved and adopted by the company in terms of section 60(2) of the Companies Act. The special resolution for the name change has been accepted and placed on file by the Companies and Intellectual Property Commission.

The company listed new instruments to the total value of R750 million on the JSE Ltd on 18 March 2019. The instruments are unsecured subordinated callable notes.

PRESENTATION OF FINANCIAL STATEMENTS

The statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee) and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the company have been applied consistently to all periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the company's accounting policies. Such judgement, assumptions and estimates are disclosed on page 25, including changes in estimates that are an integral part of the insurance business.

Primary earnings metric

The company has changed its primary earnings metric from core headline earnings to normalised headline earnings. For further information refer to the segmental report.

New reporting segments

To more meaningfully report on earnings and growth, the company has aligned its reporting segments to its revised internal operating structure. For further information refer to the segmental report.

CORPORATE GOVERNANCE

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

The assessment of the application and implementation of King IV principles is ongoing. The results to date, show that the company's governance processes are well entrenched, and that the company is generally compliant with all the principles of King IV.

For a table disclosing all the principles of King IV, and how each has been applied, refer to the MMH group integrated report and to the King IV application register, which is available on the MMH website:

<http://www.momentummetropolitan.co.za/en/about/governance>

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As part of running a business, the company is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The company had no material capital commitments at 30 June 2019 other than what is disclosed in note 39.

RESULTS OF OPERATIONS

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

Earnings attributable to equity holders for the year under review were R2 909 million (2018: R1 543 million). Normalised headline earnings were R2 898 million (2018: R2 336 million) and normalised headline earnings per share 1 525 cents (2018: 1 229 cents). Refer to note 1 for a reconciliation of earnings to normalised headline earnings.

SUBSIDIARIES AND ASSOCIATES

Details of significant subsidiary companies and associates are contained in notes 5 and 6, as well as in Annexures A and B.

DIRECTORS' REPORT

(continued)

SHARE CAPITAL

Share issue

There were no changes in the authorised or issued share capital of Momentum Metropolitan Life Ltd during the financial year.

Share options

The company has not issued any options on Momentum Metropolitan Life Ltd shares. The company awards units to employees as part of cash-settled share-based schemes - refer to note 22 (b) for more detail.

Momentum Metropolitan Life Ltd preference shares

The company has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by Momentum Metropolitan Holdings Ltd. Refer to note 23 and note 25.

SHAREHOLDER DIVIDEND

Ordinary share dividend

The following dividends were declared during the current year:

	2019	2018
	cents per	cents per
	share	share
Interim – March	439	789
Final – September	334	370
Special dividend	501	-
	<u>1 274</u>	<u>1 159</u>

On 4 September 2019 a final dividend of 334 cents per ordinary share was declared. In addition, it is expected that a special dividend of 501 cents per ordinary share will be declared in December or early 2020. The interim dividend, final dividend and special dividend will result in an annual dividend of 1 274 cents per share. The final dividend is payable to Momentum Metropolitan Holdings Limited over various periods, with the final amount paid before 30 September 2019.

SHAREHOLDERS

Momentum Metropolitan Life Limited is a wholly owned subsidiary of Momentum Metropolitan Holdings Limited.

DIRECTORS' REPORT

(continued)

DIRECTORATE, SECRETARY AND AUDITOR

The company had the following directors at 30 June 2019:

JJ Njeke (chairman)	Independent non-executive
H Meyer (chief executive officer)	Executive
J Cilliers (Marais) (deputy chief executive officer)	Executive
R Ketola	Executive
F Truter	Independent non-executive
S Jurisich	Independent non-executive
F Jakoet	Independent non-executive
LM Chiume	Non-independent non-executive
MS Moloko	Independent non-executive
SL Mc Pherson	Independent non-executive
KS Legoabe-Kgomari	Non-independent non-executive

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

	Appointments	Resignations
M Chetty (company secretary)		30 September 2018
L Basson (acting company secretary)	30 September 2018	1 March 2019
L Von Zeuner		28 February 2019
LM Chiume	1 March 2019	
MS Moloko	1 March 2019	
SL Mc Pherson	1 March 2019	
CorpStat Governance Services (Pty) Ltd (interim company secretary)	1 March 2019	
KS Legoabe-Kgomari	14 June 2019	
G Tyusha (company secretary)	1 July 2019	

In June 2017, the Independent regulatory Board of Auditors published a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation ("MAFR"), whereby audit firms shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive years, with effect from 1 April 2023. The board of the company, together with its audit committee, has resolved to early adopt MAFR. As a consequence, PricewaterhouseCoopers Inc. will rotate off the company's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019, expected to be at the conclusion of the company's annual general meeting to be held on 26 November 2019. Shareholders will be informed of the new firm of external auditors once all regulatory approvals have been obtained. The change of external audit firm will be tabled for approval by the company's shareholders at the company's next annual general meeting.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in Momentum Metropolitan Holdings Ltd of the directors of the company at 30 June 2019 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2019 '000	Total 2018 '000
Listed				
Executive directors	437	390	827	529
Non-executive directors	44	433	477	477
	481	823	1 304	1 006

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

DIRECTORS' REPORT

(continued)

SPECIAL RESOLUTIONS

At the annual general meeting of shareholders of the company held on 24 November 2018 the following special resolutions were approved:

- The board of directors was authorised to repurchase shares issued by the company, subject to the provisions of the Memorandum of Incorporation of the company.
- The company was authorised to provide financial assistance as contemplated in section 44 of the Companies Act on the terms and conditions determined by the board of directors.
- The fees for the members of the board of directors and other committee members were approved.

BORROWING POWERS

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

EVENTS AFTER YEAR-END

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

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Momentum Metropolitan Life Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Momentum Metropolitan Life Limited (the Company) as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Momentum Metropolitan Life Limited's financial statements set out on pages **18** to **155** comprise:

- the statement of financial position as at 30 June 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- annexure E – significant accounting policies; and
- the notes to the financial statements.

Certain required disclosures have been presented elsewhere in the document titled "*Momentum Metropolitan Life Limited Annual Financial Statements 30 June 2019*", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Momentum Metropolitan Life Limited

Our audit approach

Overview



Overall materiality

- R230 million, which represents 5% of adjusted profit before tax.

Audit scope

- The audit included full scope audits on all operating segments. These components were scoped in, as they are financially significant to the individual financial statement line items of the financial statements.

Key audit matters

- Valuation of insurance contract liabilities.

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

Materiality

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

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

Overall materiality	R230 million
How we determined it	5% of adjusted profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the company and other companies in this industry is most commonly measured by users. The profit before tax was adjusted for once off items, which include impairment losses and actuarial basis changes as set out in Note 1. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry.

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Momentum Metropolitan Life Limited

How we tailored our audit scope

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

The Company is structured in 8 segmental reporting views, which include Momentum Life, Metropolitan Retail, Momentum Investments, Momentum Corporate, Africa, Non-life insurance, New Initiatives and Shareholders.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of insurance contract liabilities (Refer to notes 14 and 16)</i></p> <p>Insurance contracts are those under which the group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.</p> <p>Management valued insurance contract liabilities in accordance with the Financial Soundness Valuation (FSV) Method and Assumptions basis as set out in the actuarial guidance contained in the Standard of Actuarial Practice (SAP) 104.</p> <p>In valuing these insurance contract liabilities, management considered key economic and non-economic assumptions. Economic assumptions include available market information as at year-end which amongst others, include:</p> <ul style="list-style-type: none"> ● discount rates; ● investment returns; and ● inflation rates <p>Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgement. These include future expected claims experience for items such as:</p> <ul style="list-style-type: none"> ● mortality; ● morbidity; and ● lapses. <p>We considered the valuation of policyholder liabilities arising from insurance contracts to be a matter of most significance to our current year audit because of the significant judgements and assumptions (both economic and non-economic) applied by management in the</p>	<p>We made use of our actuarial and data expertise to test the output from management's actuarial valuation process which considers the following:</p> <ul style="list-style-type: none"> ● data inputs; ● assumptions applied; and ● results of the analysis of surplus (AOS) and liability build up. <p>The following audit procedures were performed in order to test the above:</p> <ul style="list-style-type: none"> ● Understanding the Group's actuarial control environment and governance such as the functioning of the Group Actuarial Committee. <p><i>Data inputs</i></p> <ul style="list-style-type: none"> ● We tested the completeness and accuracy of data used by management in the valuations which included: <ul style="list-style-type: none"> ○ inspecting the movement reconciliations for key data fields; and ○ reconciling the policyholder data used in the valuation to the data on the administration systems. <p>We found no material exceptions.</p> <p><i>Assumptions applied</i></p> <ul style="list-style-type: none"> ● We assessed the reasonableness of assumptions applied by management by comparing them to observable market data or through consideration of experience investigations and historical variances. We found the assumptions used by management to be reasonable.

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Momentum Metropolitan Life Limited

valuation of policyholder liabilities.

- We challenged and assessed the reasonableness and the accuracy of management's allocation and split between initial and renewal expenses across the different segments and between product houses through comparison to budgets as well as consideration of historical variances. We found the allocations used by management to be reasonable.

Analysis of surplus and liability build up

- We assessed the reasonableness of management's explanation of the sources of profits (analysis of surplus) as well as changes in the policyholder liability by considering our understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant Group Actuarial Committee approved changes. We found management's explanation of the sources of profits and the changes in the policyholder liability to be reasonable.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Momentum Metropolitan Life Limited Annual Financial Statements 30 June 2019, which includes the Directors' Report, the Report of the Audit Committee and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Momentum Metropolitan Life Limited

Auditor's responsibilities for the audit of financial statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
to the shareholders of Momentum Metropolitan Life Limited

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Momentum Metropolitan Life Limited for 40 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor
Johannesburg
3 September 2019

STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	2019 Rm	2018 Rm	Notes
ASSETS			
Intangible assets	2 570	2 678	2
Owner-occupied properties	750	1 642	3
Property and equipment	131	128	
Investment properties	7 163	6 321	4
Interest in subsidiaries	70 593	68 273	5
Employee benefit assets	466	433	21
Financial assets at fair value through income (1)	273 547	269 456	6.1
Investments in associates at fair value through income (1)	21 271	17 253	6.2
Derivative financial assets at fair value through income	2 375	2 770	6.3
Loans and receivables	-	6 132	7
Financial assets at amortised cost	7 343	-	7
Reinsurance contracts	2 131	1 872	12
Insurance and other receivables	2 600	2 683	8
Cash and cash equivalents	12 478	12 478	9
Non-current assets held for sale	622	-	13
Total assets	404 040	392 119	
EQUITY			
Equity attributable to owners of the parent	14 811	13 657	
Share capital	1 041	1 041	23
Other components of equity	5 156	5 436	24
Retained earnings	8 614	7 180	
Preference shares	500	500	25
Total equity	15 311	14 157	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	104 435	98 009	14
Investment contracts	259 409	258 529	15
- with discretionary participation features (DPF)	21 859	22 752	
- designated at fair value through income	237 550	235 777	
Financial liabilities at fair value through income (1)	10 007	8 347	17
Derivative financial liabilities at fair value through income	2 219	2 013	6.3
Deferred income tax	1 399	901	20
Employee benefit obligations	818	694	22
Other payables	10 166	9 391	18
Current income tax liabilities	276	78	
Total liabilities	388 729	377 962	
Total equity and liabilities	404 040	392 119	

(1) In the prior year, this line item was classified as designated at fair value through income in terms of IAS 39 and has not been restated.

INCOME STATEMENT

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Insurance premiums	27 510	21 355	
Insurance premiums ceded to reinsurers	(2 405)	(2 269)	
Net insurance premiums	25 105	19 086	26
Fee income	3 205	2 787	27
Investment contracts	2 615	2 254	
Trust and fiduciary services	445	404	
Other fee income	145	129	
Investment income - amortised cost (1)	542	-	
Investment income - other (1)	16 684	15 697	28
Net realised and fair value gains	3 269	15 894	29
Net income	48 805	53 464	
Insurance benefits and claims	22 533	23 665	
Insurance claims recovered from reinsurers	(2 112)	(1 927)	
Net insurance benefits and claims	20 421	21 738	30
Change in actuarial liabilities and related reinsurance	5 274	1 240	
Change in insurance contract liabilities	6 426	1 396	14
Change in investment contracts with DPF liabilities	(893)	2	15
Change in reinsurance contracts	(259)	(158)	12
Fair value adjustments on investment contract liabilities	8 888	17 466	15
Depreciation, amortisation and impairment expenses	133	557	31
Employee benefit expenses	3 367	3 014	32
Sales remuneration	3 103	3 068	33
Other expenses	2 386	2 383	34
Expenses	43 572	49 466	
Results of operations	5 233	3 998	
Finance costs	(753)	(802)	35
Profit before tax	4 480	3 196	
Income tax expense	(1 537)	(1 618)	36
Earnings for year	2 943	1 578	
Attributable to:			
Owners of the parent	2 909	1 543	1
Momentum Metropolitan Life Ltd preference shares	34	35	
	2 943	1 578	
Basic earnings per ordinary share (cents)	1 531	812	

(1) In the prior year, investment income on amortised cost financial instruments was included in other investment income and has not been restated in line with IFRS 9.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Earnings for the year	2 943	1 578	
Other comprehensive income, net of tax	(203)	(989)	
Items that may subsequently be reclassified to income	-	(1 096)	
Revaluation of subsidiaries	-	(1 096)	24
Items that will not be reclassified to income	(203)	107	
Land and building revaluation	(203)	54	24
Change in non-distributable reserve	-	51	24
Revaluation of subsidiaries	(61)	-	24
Remeasurements of post-employee benefit funds	2	13	24
Income tax relating to items that will not be reclassified	59	(11)	24
Total comprehensive income for the year	2 740	589	
Total comprehensive income attributable to:			
Owners of the parent	2 706	554	
Momentum Metropolitan Life Ltd preference shares	34	35	
	2 740	589	

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Share capital	Share premium	Other reserves	Retained earnings	Total attributable to owners of the parent	Preference shares	Total equity	Notes
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Balance at 1 July 2017	9	1 032	6 947	8 512	16 500	500	17 000	
Total comprehensive income	-	-	(1 339)	1 543	204	35	239	
Income statement	-	-	-	1 543	1 543	35	1 578	
Transfer to income statement	-	-	(350)	-	(350)	-	(350)	
Other comprehensive income	-	-	(989)	-	(989)	-	(989)	
Dividend paid	-	-	-	(3 047)	(3 047)	(35)	(3 082)	
Transfer to retained earnings	-	-	(172)	172	-	-	-	
Balance at 1 July 2018	9	1 032	5 436	7 180	13 657	500	14 157	
IFRS 9 opening adjustment (1)	-	-	-	(16)	(16)	-	(16)	
Restated opening balance	9	1 032	5 436	7 164	13 641	500	14 141	
Total comprehensive income	-	-	(203)	2 909	2 706	34	2 740	
Income statement	-	-	-	2 909	2 909	34	2 943	
Transfer to income statement	-	-	-	-	-	-	-	
Other comprehensive income	-	-	(203)	-	(203)	-	(203)	
Dividend paid	-	-	-	(1 536)	(1 536)	(34)	(1 570)	
Transfer to retained earnings	-	-	(77)	77	-	-	-	
Balance at 30 June 2019	9	1 032	5 156	8 614	14 811	500	15 311	

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(1) The company adopted IFRS 9 in the current year. Refer to Annexure G for more detail.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(13 301)	(7 338)	37.1
Interest received	11 528	11 049	
Dividends received	4 677	3 701	
Income tax paid	(781)	(1 346)	37.2
Interest paid	(753)	(802)	37.3
Net cash in/(outflow) from operating activities	1 370	5 264	
Cash flow from investing activities			
Additional investment in subsidiary	(435)	(907)	
Disposal of subsidiary	44	393	
Purchase of owner-occupied properties	(48)	(58)	
Disposal of owner-occupied properties	22	174	
Purchase of investment properties	(900)	(302)	
Disposal of investment properties	683	102	
Purchase of property and equipment	(57)	(67)	
Disposal of property and equipment	(1)	10	
Purchase of intangible assets	(295)	(553)	
Disposal of intangible assets	-	1	
Net cash (out)/inflow from investing activities	(987)	(1 207)	
Cash flow from financing activities			
Increase / (Decrease) in financial liabilities at fair value through income	1 186	(3 048)	37.4
Dividend paid to equity holders	(1 536)	(2 550)	
Preference share dividends paid	(34)	(35)	
Net cash (out)/inflow from financing activities	(384)	(5 633)	
Net cash flow	(1)	(1 576)	
Cash resources and funds on deposit at beginning	12 478	14 054	
Cash resources and funds on deposit at end	12 477	12 478	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	12 477	12 478	9
	12 477	12 478	

BASIS OF PREPARATION

BASIS OF PREPARATION OF THE STATEMENTS

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

Fair value

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

Other measurement basis

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

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

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

Based on the accounting treatment of the reverse acquisition at the time of the merger between Momentum Group Limited and Metropolitan Holdings Limited, the Momentum Metropolitan Holdings Limited financial statements represent the consolidated financial statements of Momentum Metropolitan Life Limited.

The preparation of the company's results was supervised by the MMH financial director, Risto Ketola (FIA, FASSA, CFA) and have been audited by PricewaterhouseCoopers Inc in compliance with the requirements of the Companies Act, 71 of 2008.

BASIS OF PREPARATION

Published standards, amendments and interpretations effective for the financial period ended 30 June 2019

Effective annual periods

beginning on or after	Description
1 January 2018	IFRS 2 (Amendment) - Classification and measurement of certain share-based payment transactions
1 January 2018	IFRS 4 (Amendment) - Implementation of IFRS 9
1 January 2018	IFRS 9 - Financial Instruments
1 January 2018	IFRS 15 - Revenue from contracts with customers
1 January 2018	IFRS 15 (Amendment) - Revenue from contracts with customers: clarification of guidance
1 January 2018	IAS 40 (Amendment) - Transfers of investment property
1 January 2018	IFRIC 22 - Foreign currency transactions and advance consideration

Annual improvements 2014-16 cycle

1 January 2018	IFRS 1 - First-time adoption of IFRS
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These new and amended standards, other than IFRS 9, had no financial impact on the company's earnings or net asset value. Refer to Annexure G for more information on IFRS 9 and IFRS 15.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

PREPARATION OF FINANCIAL STATEMENTS

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

APPLICATION OF ACCOUNTING POLICIES

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the company. Management applies judgement in determining best estimates of future experience. Judgements are based on historical experience and management's best estimate expectations of future events, taking into account changes experienced historically.

Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying amounts of the affected assets and liabilities.

The critical estimates and judgements made in applying the company's accounting policies are detailed in the notes to the annual financial statements, as listed below:

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10 the company considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the company or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and Annexure B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Provision for deferred and current tax – note 20
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 12 and 16
- Valuation assumptions for financial instruments – Annexure F
- Assessment of IFRS 15 – note 27 and Annexure G

SEGMENTAL REPORT

For the year ended 30 June 2019

A simplified operating model was announced in June 2018, effective 1 July 2018. The product Centre of Excellence structure was dissolved and a number of empowered end-to-end value chain business units were created, supported by shared distribution channels and company support functions.

The segmental report has been aligned to the new operating business unit structures. The prior periods have been restated to provide meaningful comparison for these new segments.

The company's reporting view now reflects the following segments:

Momentum Life: Momentum Life includes protection, savings and life insurance products focused on the middle and affluent client segments.

Momentum Investments: Momentum Investments consists of the Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments.

Metropolitan Retail: Metropolitan Retail focusses on the lower and middle income retail market segment, with a range of protection and savings products.

Momentum Corporate: Momentum Corporate offers group risk, annuities, pension savings, and umbrella fund (FundsAtWork) products.

Africa: This segment includes allocations relating to African operations.

Non-life Insurance: This segment includes allocations relating to Momentum Short-term Insurance and Momentum Short-term Insurance Administration.

New Initiatives: This segment includes allocations relating to India, aYo, Money Management, Lending and Exponential Ventures.

Shareholders: The Shareholders segment reflects investment income on capital held to support local operations and some costs not allocated to operating segments

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

The executive committee assesses the performance of the operating segments based on normalised headline earnings. This measurement basis includes the impact of investment variances, actuarial basis changes and other non-recurring items that were previously not reported as part of core headline earnings. However, normalised headline earnings still adjust the standard definition of headline earnings for the amortisation of intangible assets from business combinations.

The majority of revenue earned by the company is attributable to South Africa.

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

Reconciliation of management information to IFRS

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

SEGMENTAL REPORT

2019	Momentum Life	Momentum Investments	Metropolitan Retail	Momentum Corporate	Non-life Insurance	Africa	New initiatives	Shareholder capital	Segmental total	Reconciling items (1)	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue											
Net insurance premiums	9 213	20 908	7 052	20 397	-	-	-	-	57 570	(32 465)	25 105
Recurring premiums	8 795	534	5 931	12 009	-	-	-	-	27 269	(10 673)	16 596
Single premiums	418	20 374	1 121	8 388	-	-	-	-	30 301	(21 792)	8 509
Fee income	795	1 429	133	841	-	-	-	7	3 205	-	3 205
External fee income	795	1 429	133	841	-	-	-	7	3 205	-	3 205
Expenses											
Net payments to contract holders											
External payments	9 630	26 643	5 804	15 322	-	-	-	-	57 399	(36 978)	20 421
Other expenses	2 802	1 335	2 442	1 253	-	-	27	78	7 937	1 052	8 989
Sales remuneration	1 296	719	984	104	-	-	-	-	3 103	-	3 103
Administration expenses	1 506	616	1 458	1 149	-	-	27	27	4 783	-	4 783
Amortisation, depreciation and	-	-	-	-	-	-	-	45	45	-	45
Direct property expenses	-	-	-	-	-	-	-	-	-	410	410
Asset management and other	-	-	-	-	-	-	-	6	6	642	648
Income tax	312	667	151	407	-	-	-	-	1 537	-	1 537
Normalised Earnings	966	219	610	512	-	-	(31)	622	2 898	-	2 898
Operating profit	1 348	299	850	711	-	-	(37)	133	3 304	-	3 304
Tax on operating profit	(382)	(84)	(240)	(199)	-	-	-	(66)	(971)	-	(971)
Investment income	-	-	-	-	-	-	8	547	555	-	555
Tax on Investment income	-	-	-	-	-	-	(2)	(86)	(88)	-	(88)
Fair value gains before tax	-	5	-	-	-	-	-	103	108	-	108
Tax on investment income	-	(1)	-	-	-	-	-	(9)	(10)	-	(10)
Actuarial liabilities	73 821	157 911	35 675	96 437	-	-	-	-	363 844	-	363 844

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split. Refer to note 15 for more information.

(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R91 308 million with no such non-current assets located in other countries.

SEGMENTAL REPORT

2018 Restated	Momentum Retail	Momentum Investments	Metropolitan Retail	Momentum Corporate	Non-life Insurance	Africa	New Initiatives	Shareholder capital	Segmental total	Reconciling items (1)	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue											
Net insurance premiums	8 916	20 783	7 389	14 645	-	-	-	-	51 733	(32 647)	19 086
Recurring premiums	8 565	403	6 085	10 989	-	-	-	-	26 042	(10 024)	16 018
Single premiums	351	20 380	1 304	3 656	-	-	-	-	25 691	(22 623)	3 068
Fee income	517	1 357	139	775	-	-	-	(1)	2 787	-	2 787
External fee income	517	1 357	139	775	-	-	-	(1)	2 787	-	2 787
Expenses											
Net payments to contract holders											
External payments	9 389	24 309	5 726	15 906	-	-	-	-	55 330	(33 592)	21 738
Other expenses	3 281	658	2 475	1 226	-	5	29	391	8 065	957	9 022
Sales remuneration	1 261	644	1 060	102	-	-	-	-	3 067	-	3 067
Administration expenses	2 020	14	1 415	1 124	-	5	29	339	4 946	-	4 946
Amortisation, depreciation and	-	-	-	-	-	-	-	46	46	-	46
Direct property expenses	-	-	-	-	-	-	-	-	-	395	395
Asset management and other	-	-	-	-	-	-	-	6	6	562	568
Income tax	341	717	158	402	-	-	-	-	1 618	-	1 618
Normalised headline earnings	574	(3)	201	754	(5)	(7)	(30)	852	2 336	-	2 336
Operating profit	821	-	281	1 053	-	(5)	(29)	89	2 210	-	2 210
Tax on operating profit	(247)	2	(80)	(295)	-	-	-	(79)	(699)	-	(699)
Investment income	-	-	-	-	-	-	-	524	524	-	524
Tax on Investment income	-	-	-	-	-	-	-	(103)	(103)	-	(103)
Fair value gains before tax	-	(7)	-	(5)	(6)	(3)	(1)	427	405	-	405
Tax on investment income	-	2	-	1	1	1	-	(6)	(1)	-	(1)
Actuarial liabilities	75 091	158 076	34 913	88 458	-	-	-	-	356 538	-	356 538

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split. Refer to note 15 for more information.

(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R92 880 million, with no such non-current assets located in other countries

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

1 EARNINGS PER ORDINARY SHARE

	Basic earnings	
	2019	2018
Attributable to owners of the parent		
Earnings (cents per share)	1 531	812
Normalised headline earnings (cents per share)	1 525	1 229
	Basic earnings	
	2019	2018
	Rm	Rm
Reconciliation of headline earnings attributable to owners of the parent		
Earnings – equity holders of the company	2 909	1 543
Loss on sale of subsidiary	-	403
(Reversal of impairment) and impairment of loans due from subsidiaries	(119)	(26)
Impairment of investment in subsidiaries below cost	-	345
Impairment of owner-occupied property below cost	53	-
Impairment of office equipment	22	-
Impairment of internally developed computer software	-	38
Amortisation of intangible assets relating to business combinations	33	33
Normalised headline earnings (1)	2 898	2 336
Weighted average number of ordinary shares in issue (million)	190	190

(1) Normalised headline earnings

Normalised headline earnings include the impact of investment variances, actuarial basis changes (2019: (R160m)) and other non-recurring items that were previously not reported as part of core headline earnings. However, normalised headline earnings still adjust the standard definition of headline earnings for the amortisation of intangible assets from business combinations. Management is of the opinion that these adjustments present a more realistic picture of underlying performance.

The table has been restated based on a new operating model adopted by the company. The company has also adopted normalised headline earnings as its primary earnings measure and not core headline earnings as previously disclosed. Refer to the table below for a reconciliation of core headline earnings to total earnings under the old model.

Reconciliation of comparative headline earnings attributable to owners of the parent	2018
	Rm
Earnings – equity holders of the company	1 543
Loss on sale of subsidiary	403
(Reversal of impairment) and impairment of loans due from subsidiaries	(26)
Impairment of investment in subsidiaries below cost	345
Impairment of internally developed computer software	38
Amortisation of intangible assets relating to business combinations	33
Net realised and fair value gains on excess	(398)
Basis changes and other investment variances	600
Non-core share-based payment expenses	(29)
Other non-core expenses	60
Core headline earnings	2 569

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
2 INTANGIBLE ASSETS		
Goodwill	40	40
Value of in-force business acquired	553	596
Customer relationships	-	3
Deferred acquisition costs	1 891	1 930
Computer software	86	109
	2 570	2 678
2.1 Goodwill		
Cost	56	56
Accumulated impairment	(16)	(16)
Carrying amount	40	40
Carrying amount at beginning	40	40
Carrying amount at end	40	40
Cash-generating unit (CGU)		
Life books	40	40
	40	40

Critical accounting estimates and judgements

Goodwill is allocated to CGUs for the purpose of impairment testing. The life book represents the CGU of the life insurance book of Commercial Union Life Association of South Africa Ltd of R40 million, acquired in 1999 (included in the Metropolitan Retail segment).

The recoverable value of this CGU is determined based on a value-in-use calculation with reference to directors' valuations. This calculation uses cash flow projections which includes projected new business based on financial budgets approved by management covering a five-year period. Future cash flows are discounted at a rate of return that makes allowance for the uncertain nature of the future cash flows. This calculation is dependent on the assumptions disclosed below.

Assumptions	2019		2018	
	Risk discount rate	Growth rate	Risk discount rate	Growth rate
Commercial Union Life Association of South Africa Ltd	12%	6%	12%	8%

Impairments

Impairment testing involves the calculation of present value of future profits. No impairment was made in the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
2.2 Value of in-force business acquired		
<i>Acquisition of insurance and investment contracts with DPF</i>		
Cost	1 040	1 040
Accumulated amortisation	(487)	(444)
Carrying amount	<u>553</u>	<u>596</u>
Carrying amount at beginning	596	639
Amortisation charges	(43)	(43)
Carrying amount at end	<u>553</u>	<u>596</u>
<i>The carrying amount is made up as follows:</i>		
Sage - Shareholder capital segment	553	596
	<u>553</u>	<u>596</u>

As a result of certain insurance contracts acquisitions, the company carries an intangible asset representing the VIF acquired. R553 million (2018: R596 million) relates to the acquisition of Sage and will be fully amortised by 2032.

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 company earnings before tax.

2.3 Customer relationships

Cost	17	17
Accumulated amortisation	(17)	(14)
Carrying amount	<u>-</u>	<u>3</u>
Carrying amount at beginning	3	6
Amortisation charges	(3)	(3)
Carrying amount at end	<u>-</u>	<u>3</u>
<i>The carrying amount is made up as follows:</i>		
Client contracts from Everest Corporate Benefits (Pty) Ltd - Shareholder capital segment	-	3
	<u>-</u>	<u>3</u>

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations relate to the acquisition of client contracts from Everest Corporate Benefits (Pty) Ltd and was fully amortised by the end of the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
2.4 Deferred acquisition costs		
Cost	5 448	5 160
Accumulated amortisation	(3 557)	(3 230)
Carrying amount	<u>1 891</u>	<u>1 930</u>
Carrying amount at beginning	1 930	1 966
Additions	288	522
Amortisation charges	(327)	(558)
Carrying amount at end	<u>1 891</u>	<u>1 930</u>
2.5 Computer software		
Acquired computer software		
Cost	131	131
Accumulated amortisation	(105)	(101)
Carrying amount	<u>26</u>	<u>30</u>
Carrying amount at beginning	30	32
Additions	-	3
Amortisation charges	(4)	(5)
Carrying amount at end	<u>26</u>	<u>30</u>
Internally developed computer software		
Cost	312	304
Accumulated amortisation	(97)	(70)
Accumulated impairment	(155)	(155)
Carrying amount	<u>60</u>	<u>79</u>
Carrying amount at beginning	79	134
Additions	8	26
Disposals	-	-
Amortisation charges	(27)	(28)
Impairment charges	-	(53)
Carrying amount at end	<u>60</u>	<u>79</u>
Total computer software	<u>86</u>	<u>109</u>

Material computer software

The Metropolitan Retail segment has computer software of R11 million (2018: R23 million) which will be fully amortised by 2020, while the Momentum Investments segment has computer software of R11 million (2018: R14 million) which will be fully amortised by 2021.

During the prior year, based on management assessment, a system was written off and the impairment charge of R53m relates to this write-off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
3 OWNER-OCCUPIED PROPERTIES		
Owner-occupied properties - at fair value	750	1 642
Historical carrying amount – cost model	677	809
Fair value at beginning	1 642	1 851
Additions	48	41
Disposals	(22)	(173)
Revaluations	(200)	61
Depreciation charge	(31)	(46)
Impairment below cost	(67)	-
Transfer (to)/from investment properties	2	(92)
Transfer (to)/from investment properties under development	-	-
Transfer (to) non-current assets held for sale	(622)	-
Fair value at end	750	1 642

A register of owner-occupied properties is available for inspection at the company's registered office. Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements

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

Assumptions	Base assumption	Change in assumption	Change in fair value	
			Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	8% - 10%	10%	58	(48)
Discount rate	13% - 15%	10%	38	(93)

Capitalisation and discount rates (2018: 8% - 11% and 13% - 16% 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 company. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
4 INVESTMENT PROPERTIES		
<i>At 30 June investment properties comprised the following property types:</i>		
Industrial	252	285
Shopping malls	3 503	3 557
Office buildings	3 200	2 270
Hotels	267	264
Vacant land	25	28
Other	74	70
Property at valuation	7 321	6 474
Accelerated rental income (note 8)	(158)	(153)
	7 163	6 321
Investment properties under development		
Fair value at beginning	-	692
Transfer to completed properties	-	(115)
Transfer to owner-occupied properties	-	-
Disposals	-	(847)
Capitalised subsequent expenditure	-	270
Fair value at end	-	-
Completed properties		
Fair value at beginning	6 321	5 947
Capitalised subsequent expenditure	143	32
Additions	1 180	-
Disposals	(683)	(102)
Net gain from fair value adjustments	210	234
Change in accelerated rental income	(6)	3
Transfer from/(to) owner-occupied properties	(2)	92
Transfer from investment properties under development	-	115
Fair value at end	7 163	6 321
Total investment properties	7 163	6 321

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 2019, amounting to 27% (2018: 6%) of the portfolio for the company. Eris Property Group (Eris) is responsible for the internal valuations of the company. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Assumptions	Base assumption	Change in assumption	Change in fair value	
			Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	7% - 11%	10%	200	(529)
Discount rate	10% - 15%	10%	143	(135)

Capitalisation and discount rates (2018: 7% - 11% and 13% - 16% respectively) used reflect the security of the income and covenant of strength from the existing tenants. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

5 INTEREST IN SUBSIDIARIES

Subsidiaries (directly held): Listed	Category*	Effective % holding		Investment by holding company				Carrying amount (including loan account)		Nature of business	Country of incorporation
		2019 %	2018 %	Amounts owing by/(to) subsidiaries		Company carrying amount		2019 Rm	2018 Rm		
				2019 Rm	2018 Rm	2019 Rm	2018 Rm				
Collective investment schemes (Annexure A)	FVTI	Various	Various	-	-	67 454	65 531	64 455	65 531	Unit trusts	South Africa
Unlisted											
Momentum Asset Management (Pty) Ltd	FVTOCI	100	100	(8)	2	722	720	714	722	Investment Management	South Africa
Momentum Short-term Insurance Company Ltd	FVTOCI	100	100	29	29	589	482	618	511	Short term insurance	South Africa
Momentum Multiply (Pty) Ltd (previously MMI Multiply (Pty) Ltd)	FVTOCI	100	100	24	8	447	380	471	388	Client Engagement Services	South Africa
Momentum Wealth International Ltd	FVTOCI	100	100	10	14	348	354	358	368	Investment services	Guernsey
Momentum Wealth (Pty) Ltd	FVTOCI	100	100	170	310	161	134	331	444	Investment Management	South Africa
129 Rivonia Road (Pty) Ltd	FVTOCI	100	100	583	1 145	7	-	590	1 145	Property Investment	South Africa
Momentum Alternative Investments (Pty) Ltd	FVTOCI	100	100	(1)	(2)	68	51	67	49	Investment Management Credit Life + Group Life insurance	South Africa
Momentum Life Botswana Ltd	FVTOCI	100	100	16	9	26	26	42	35	insurance	Botswana
Momentum Alternative Insurance Ltd	FVTOCI	100	100	-	-	30	28	30	28	Short term Insurance	South Africa
Momentum Ability Ltd	FVTOCI	100	100	-	-	26	21	26	21	Long term Insurance	South Africa
Momentum Metropolitan Umhlanga (Pty) Ltd (previously MMI Umhlanga (Pty) Ltd)	FVTOCI	100	100	105	97	28	17	133	114	Property Investment	South Africa
Momentum Structured Insurance Ltd	FVTOCI	100	100	-	-	11	10	11	10	Short term insurance	South Africa
MMI Short Term Insurance Administration (Pty) Ltd	FVTOCI	100	100	10	4	193	84	203	88	Short term insurance admin	South Africa
102 Rivonia Road (Pty) Ltd	FVTI	80	80	-	-	359	307	359	307	Property Investment	South Africa
SMH Land Development (Pty) Ltd	FVTI	100	100	(15)	(15)	97	90	82	75	Property Investment	South Africa
Other unlisted investments in subsidiaries	FVTOCI	Various	Various	5	96	14	28	19	124	Various	Various
Other unlisted investments in subsidiaries	FVTI	Various	Various	26	31	13	10	39	41	Various	Various
				954	1 728	70 593	68 273	68 548	70 001		
*FVTOCI: Fair value through other comprehensive income; FVTI: Fair value through income											

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
6 FINANCIAL ASSETS		
6.1 Financial assets at fair value through income		
Equity securities	43 114	44 086
Debt securities	88 371	75 628
Funds on deposit and other money market instruments	11 741	12 188
Unit-linked investments	130 321	137 554
	273 547	269 456
Open ended	174 667	182 639
Current	20 880	21 202
Non-current	78 000	65 615
1 to 5 years	29 590	25 019
5 to 10 years	14 103	13 114
> 10 years	34 307	27 482
	273 547	269 456

General

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
6.2 Investments in associates at fair value through income		
Collective investment schemes (refer to Annexure B)	21 271	17 253

	2019		2018	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6.3 Derivative financial instruments				
Held for trading	2 375	2 219	2 770	2 013
Held for hedging purposes	-	-	-	-
	2 375	2 219	2 770	2 013
Current	982	437	1 057	231
Non-current	1 393	1 782	1 713	1 782
	2 375	2 219	2 770	2 013

As part of its asset and liability management, the company 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 carried at fair value through income in accordance with the requirements of IFRS 9 in the current year and as held for trading in accordance with IAS 39 - Financial instruments: recognition and measurement in the prior year.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019			2018		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
Derivatives held for trading						
Equity derivatives		19	23		18	34
Options, OTC	-	1	1	-	-	-
Options, exchange traded	922	7	-	(179)	13	-
Futures, exchange traded	(1 244)	2	-	(1 406)	5	-
Swaps, OTC	13	9	22	34	-	34
Interest rate derivatives		2 066	1 214		2 739	1 021
Options, OTC	310	13	-	174	9	-
Swaps, OTC	(843)	2 052	1 209	(1 709)	2 730	1 021
Forward rate agreement, OTC	4	1	5	-	-	-
Bonds		55	9		8	98
Options, exchange traded	(1)	-	-	(47)	-	-
Futures, OTC	(4 580)	55	9	(3 511)	8	98
Futures, exchange traded	(1 705)	-	-	(2 511)	-	-
Credit derivatives		12	-		5	4
Swaps, OTC	(12)	12	-	(1)	5	4
Currency derivatives		223	973		-	856
Futures, OTC	-	-	-	-	-	-
Options, OTC	1 128	222	148	-	-	-
Swaps, OTC	825	1	825	856	-	856
Futures, exchange traded	(36)	-	-	(30)	-	-
Derivatives held for trading	(5 193)	2 375	2 219	(8 330)	2 770	2 013
Total derivatives financial instruments		2 375	2 219		2 770	2 013

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 company.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Offsetting

The following financial instruments are subject to offsetting, enforceable master netting arrangements and similar agreements:

Derivative financial assets

	2019	2018
	Rm	Rm
Gross amounts of recognised financial assets	2 375	2 770
Gross amounts of recognised financial liabilities set off in the statement of financial position	-	-
Net amounts of financial assets presented in the statement of financial position	2 375	2 770
Related amounts not set off in the statement of financial position		
- Financial instruments	(1 131)	(771)
- Cash collateral received	(789)	(719)
Net amount	455	1 280

Derivative financial liabilities

	2019	2018
	Rm	Rm
Gross amounts of recognised financial liabilities	2 219	2 013
Gross amounts of recognised financial assets set off in the statement of financial position	-	-
Net amounts of financial liabilities presented in the statement of financial position	2 219	2 013
Related amounts not set off in the statement of financial position		
- Financial instruments	(1 131)	(771)
- Cash collateral received	(540)	(600)
Net amount	548	642

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
7 FINANCIAL ASSETS AT AMORTISED COST		
Accounts receivable (excluding prepayments)	825	587
Less provision for impairment (1)	(45)	(36)
Prepayments	95	58
Unsettled trades	801	273
Loans	5 667	5 250
Related party loans		
Staff loans	11	14
Loans due from subsidiaries and fellow MMH subsidiaries	4 373	4 011
Less provision for impairment	(81)	(200)
Other related party loans	142	97
Other loans		
Due from agents, brokers and intermediaries	431	453
Less provision for impairment	(191)	(211)
Policy loans	982	1 086
	7 343	6 132
Current	7 267	6 086
Non-current	76	46
	7 343	6 132

Credit risk balances - expected credit loss 2019

	Stage 1	Stage 2	Stage 3	Total
Accounts receivable (excluding prepayments)	742	28	55	825
Provision for impairment	-	-	(45)	(45)
Unsettled trades	801	-	-	801
Loans				
Loans due from subsidiaries and fellow MMH subsidiaries	2 028	-	2 345	4 373
Provision for impairment	-	-	(81)	(81)
Due from agents, brokers and intermediaries	228	12	191	431
Provision for impairment	-	(2)	(189)	(191)
Staff loans	11	-	-	11
Policy loans	982	-	-	982
Other related party loans	142	-	-	142
	4 934	38	2 276	7 248

	Accounts receivable	Loans due from subsidiaries and fellow MMH subsidiaries	Due from agents, brokers and intermediaries	Total
Reconciliation of expected credit losses (1) 2019				
Balance at beginning	36	200	211	447
IFRS 9 opening retained earnings adjustment	5	-	11	16
Adjusted opening balance	41	200	222	463
Additional provision	9	-	5	14
Utilised/reversed during year	(5)	(119)	(36)	(160)
Balance at end	45	81	191	317

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2018 Rm
Reconciliation of aggregated provision accounts (1)	
Balance at beginning	509
Additional provision	-
Paid/reversed during year	(62)
Balance at end	447

(1) Prior year provision reconciliation was disclosed in terms of IAS 39. With the implementation of IFRS 9, the expected credit loss on accounts receivable is also disclosed.

	12 month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2 and stage 3)	Total
Reconciliation of expected credit losses 2019			
Accounts receivable			
Adjusted opening balance	-	41	41
Movement recognised in the income statement	-	4	4
Balance at end	-	45	45
Loans due from subsidiaries and fellow MMH subsidiaries			
Adjusted opening balance	-	200	200
Movement recognised in the income statement	-	(119)	(119)
Balance at end	-	81	81
Due from agents, brokers and intermediaries			
Adjusted opening balance	-	222	222
Movement recognised in the income statement	-	(31)	(31)
Balance at end	-	191	191

The changes in the expected credit loss allowances due to significant increases in credit risk was not considered to be significant in the current period.

Terms and conditions of material loans

- Loans to group companies are interest free, repayable on demand, and are unsecured.
- Staff loans consist of personal computer and micro loans, with a repayment date of 3 years and interest rates ranging between 15% and 21% (2018: 15% and 19%) that are unsecured, as well as bonds with a repayment date of 30 years and an interest rate of 10% (2018: between 5% and 10%) that are secured by the employee's pension.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. Some of these loans attract interest at prime plus 1% and other loans attract interest at the prime rate. These loans have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of financial assets at amortised cost

- Impairment of accounts receivable and loans is based on the recoverability of balances grouped together based on shared credit risk characteristics, for example instrument type. To determine a significant change in credit risk both historical data and forward looking information is taken into account. This includes existing or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, a breach of contract, significant changes in the value of any collateral supporting the obligation and reductions in financial support from a parent entity. Balances are written off when there is no reasonable expectation of recovery.
- Policy loans are collateralised by the insurance policy. Therefore no expected credit loss has been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts. The impairment is provided for taking into account forward looking information, employment status of brokers and financial planners, the value and duration of the balance outstanding, recoverability of the balance as well as whether legal action has been taken.
- Impairment of loans to subsidiaries are impaired if the borrowing company does not have sufficient accessible highly liquid assets available at reporting date. The expected credit loss is calculated by considering the means of the loan recovery, the quality of the subsidiary's underlying investments, profitability expectations as well as any planned support to be provided by the MMH Group.

To determine a significant increase in credit risk, the following factors are considered: changes in the net asset value of the borrower, changes in management and organisational structure during the year, stability of industry and resilience to volatility and regulatory changes, the type of funding provided to the entity and the repayment behaviour of the borrower.

Loans with repayment terms considers the net asset value, frequency in management changes, subordination of the loan and sufficiency of liquid assets of the borrower as well as the remaining repayment term to determine a probability of default.

Loans without repayment terms consider whether the borrower has sufficient accessible highly liquid assets available to determine a probability of default.

The probabilities of default are extracted from a report issued by Standard & Poor's. Loss given default rates applied are extracted from SAM LGD tables prescribed for insurers and adjusted accordingly by management to incorporate forward-looking information.

In the prior year loans due from subsidiaries were impaired in terms of IAS 39 where there was an indication that the loan might not be repaid, mostly in cases where the subsidiary's liabilities exceeded its assets and where there were no immediate repayment terms.

There was no material difference in the impairment allowance between IAS 39 and IFRS 9 on 1 July 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Staging definitions	Definition of stage			Basis for recognition of expected credit loss provision
	Accounts receivable	Due from agents, brokers and intermediaries	Loans	
Stage 1	Low risk of default strong capability to meet contractual payments	Low risk of default strong ability to meet contractual payments	Loans are recoverable. Low risk of default strong capability to meet contractual payments. Repayment of interest and capital payments in line with terms of agreements. No restructuring of the loan has occurred.	12 months expected losses.
Stage 2	Significant increase in credit risk; repayments are more than 30 days and less than 90 days past due	Significant increase in credit risk; repayments are more than 30 days and less than 90 days past due	Loans are recoverable. Repayment of interest and capital significantly in line with the terms of agreements i.e. not more than 30 days past due. Some loans may be restructured based on operational needs, but with no effect on interest and capital repayment ability i.e. credit quality has deteriorated based on the need for restructure, but adequate repayment plans in place. Significant deterioration of credit quality.	Lifetime expected losses
Stage 3	Significant increase in credit risk; repayments are more than 90 days past due	Broker balances are more than 90 days past due or where legal action has been taken. Out-of-service brokers and financial planners	Loans are partially recoverable. Repayment of interest and capital payments not in line with terms of agreement. Significant deterioration in credit quality. Loans restructured.	Lifetime expected losses
Written off	Long outstanding amounts due are evaluated on a case by case basis and would generally be written off when there is no alternative for the debtor to return to solvency and/or legal action taken was unsuccessful.			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Significant increase in credit risk	Criteria
Accounts receivable, due from agents, broker and intermediaries and loans	To determine a significant change in credit risk both historical data and forward looking information is taken into account. This includes existing or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, a breach of contract, significant changes in the value of any collateral supporting the obligation and reductions in financial support from a parent entity.

Impairment information	Method
Accounts receivable	Impairment of accounts receivable is based on the recoverability of balances grouped together based on shared credit risk characteristics, for example instrument type. Balances generally relate to amounts where the timing of settlement is within one month. A historic payments as well as forward looking information is also taken into account.
Due from agents, brokers and intermediaries	Impairment of amounts due from agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held. Policy loans are collateralised by the insurance policy and therefore the expected credit loss is negligible.

Sensitivities	
Financial assets - debt securities and funds on deposit	Considered to have low credit risk and therefore the expected credit loss is not considered to be sensitive.
Accounts receivable and due from agents brokers and intermediaries	As most of the balances in stage 1 are short-term in nature and majority of the balance in stage 3 has been provided for, the impairment amount for stages 1 and 3 are not considered to be sensitive to changes in the forward looking information. A deterioration of the forward looking information for balances in stage 2 is also not expected to be material as the gross amounts are not material.
Loans	Most of the loan balances outstanding are considered to have low credit risk as the borrower has a strong capacity meet its obligations and has a low risk of default. The expected credit loss is therefore not considered to be sensitive to changes in forward looking information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
8 INSURANCE AND OTHER RECEIVABLES		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2442	2 531
Insurance contract holders	1830	1 883
Investment contract holders with DPF	41	44
Less provision for impairment	(43)	(51)
Due from reinsurers	614	655
Accelerated rental income (note 4)	158	152
	2600	2 683
Current	2473	2 568
Non-current	127	115
	2600	2 683

Impairment of receivables arising from insurance contracts and investment contracts with DPF

Impairment is mainly due to expected payment defaults and is based on past experience.

	2019 Rm	2018 Rm
9 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	6 638	5 145
Funds on deposit and other money market instruments – maturity < 90 days	5 840	7 333
	12 478	12 478

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

10 CREDIT RISK EXPOSURE

Refer to note 48 for detail on the credit risk management.

Credit risk exposure

The company's maximum exposure to credit risk, is through the following classes of assets, which equals their carrying

	2019		2018	
	Credit exposure	Security and credit enhancements	Credit exposure	Security and credit enhancements
	Rm	Rm	Rm	Rm
At fair value through income				
Debt securities	88 371	5	75 628	292
Stock and loans to government and other public bodies	42 653	-	33 753	-
Other debt instruments	45 718	5	41 875	292
Funds on deposit and other money market instruments	11 741	-	12 188	-
Unit-linked investments (categorised as interest bearing and money market - refer note 42.1)	39 226	-	33 823	-
Collective investment schemes	37 443	-	31 321	-
Other unit-linked investments	1 783	-	2 502	-
Derivative financial instruments	2 375	-	2 770	-
Held for trading	2 375	-	2 770	-
Held for hedging purposes	-	-	-	-
Interest in subsidiary companies	70 593	-	68 273	-
Loans and receivables	7 343	-	6 129	-
Accounts receivable	876	-	605	-
Unsettled trades	800	-	274	-
Loans	5 667	-	5 250	-
Other receivables				
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 600	-	2 683	-
Cash and cash equivalents	12 478	-	12 478	-
Total assets bearing credit risk	234 727	5	213 972	292

Credit quality

The assets in the company's maximum exposure table are analysed in the following table, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Moody's, S&P and GCR. Refer to Annexure D for the definitions used in this section.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	AAA	AA	A	BBB	BB	B	Unrated	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2019								
Debt securities - Stock and loans to government and other public bodies	36 514	5 391	666	-	-	82	-	42 653
Debt securities - other debt instruments	14 048	25 442	4 660	29	35	498	1 006	45 718
Cash and cash equivalents and funds on deposit	1 809	21 976	309	4	87	-	34	24 219
Derivative financial instruments	1 165	1 169	-	-	-	-	41	2 375
Other unrated instruments								
Interest in subsidiary companies (1)	-	-	-	-	-	-	70 593	70 593
Financial assets at amortised cost	-	-	-	-	-	-	7 343	7 343
Other receivables	-	-	-	-	-	-	2 600	2 600
Unit-linked investments	-	-	-	-	-	-	39 226	39 226
	53 536	53 978	5 635	33	122	580	120 843	234 727
2018								
Debt securities - Stock and loans to government and other public bodies	27 804	4 803	941	125	1	79	-	33 753
Debt securities - other debt instruments	8 595	24 688	5 754	250	233	306	2 049	41 875
Cash and cash equivalents and funds on deposit	1 198	21 131	436	5	1 598	-	298	24 666
Derivative financial instruments	935	1 808	-	-	-	-	27	2 770
Other unrated instruments								
Interest in subsidiary companies (1)	-	-	-	-	-	-	68 273	68 273
Loans and other receivables	-	-	-	-	-	-	6 129	6 129
Other receivables	-	-	-	-	-	-	2 683	2 683
Unit-linked investments	-	-	-	-	-	-	33 823	33 823
	38 532	52 430	7 131	380	1 832	385	113 282	213 972

(1) Interest in subsidiary companies include R67 454 million (2018: R65 531 million) relating to collective investment schemes which are exposed to minimal credit risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Credit quality of reinsurers

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

Reinsurer	2019		2018	
	Reinsured portion - %	Credit rating	Reinsured portion - %	Credit rating
Swiss Re	28%	AA-	29%	AA-
General Cologne Re	23%	AA+	24%	AA+
Hannover Re	5%	A-	5%	AA-
RGA Re	15%	AA-	14%	AA-
Munich Re	26%	A-	26%	AA-
Other	3%	A	2%	A
	100%		100%	

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

	0 – 90 days	90 days - 1 year	1 - 5 years	> 5 years	Total
2019	Rm	Rm	Rm	Rm	Rm
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	565	20	1	14	600
	999	26	50	16	1 091
2018	Rm	Rm	Rm	Rm	Rm
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	11	-	-	-	11
Accounts receivable	382	12	36	-	430
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	580	19	7	13	619
	973	31	43	13	1 060

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Financial assets designated at fair value through income

Certain instruments in the company's statement of financial position, listed per class in the table below, that would have otherwise been classified as at amortised cost or fair value through other comprehensive income under IFRS 9, have been designated at fair value through income. In the prior year these instruments would have been disclosed as loans and receivables under IAS 39 had they not been designated at fair value through income under IAS 39.

	Carrying amount	
	2019 Rm	2018 Rm
Assets		
Debt securities	60 465	56 446
Funds on deposit and other money market instruments	11 693	12 118
	72 158	68 564

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

11 FINANCIAL ASSETS HIERARCHY

Refer to Annexure F for the valuation techniques relating to this note.

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

2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through income	213 764	78 137	2 917	294 818
Equity securities				
Local listed	41 647	2	-	41 649
Foreign listed	1 364	-	-	1 364
Unlisted	-	-	101	101
Debt securities				
Stock and loans to government and other public bodies				
Local listed	29 338	9 244	-	38 582
Foreign listed	-	26	-	26
Unlisted	-	4 045	-	4 045
Other debt instruments				
Local listed	-	19 771	-	19 771
Foreign listed	-	335	-	335
Unlisted	-	24 643	969	25 612
Funds on deposit and other money market instruments	-	11 741	-	11 741
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	81 086	314	-	81 400
Foreign unlisted or listed quoted	37 451	24	-	37 475
Foreign unlisted unquoted	-	456	227	683
Other unit-linked investments				
Local unlisted or listed quoted	1 770	1 311	-	3 081
Local unlisted unquoted	-	6 225	1 321	7 546
Foreign unlisted unquoted	-	-	136	136
Foreign unlisted or listed quoted	-	-	-	-
Investments in associates at fair value through income (1)	21 108	-	163	21 271
Derivative financial instruments	9	2 366	-	2 375
Held for trading	9	2 366	-	2 375
Interest in subsidiary companies	66 878	97	3 618	70 593
Designated at fair value	-	-	3 139	3 139
Collective investment schemes	66 878	97	479	67 454
Non-financial assets	-	-	7 913	7 913
Owner-occupied properties	-	-	750	750
Investment properties	-	-	7 163	7 163
	280 651	80 600	14 448	375 699

(1) Collective investment schemes and Investments in associates 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.

There were no significant transfers between level 1 and level 2 assets in the current year or in the prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	207 483	76 496	2 730	286 709
Equity securities				
Local listed	43 066	1	1	43 068
Foreign listed	970	-	-	970
Unlisted	-	15	33	48
Debt securities				
Stock and loans to government and other public bodies				
Local listed	20 223	9 827	-	30 050
Foreign listed	-	23	-	23
Unlisted	-	3 680	-	3 680
Other debt instruments				
Local listed	-	18 915	8	18 923
Foreign listed	-	331	-	331
Unlisted	-	21 017	1 604	22 621
Funds on deposit and other money market instruments	-	12 188	-	12 188
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	89 398	653	-	90 051
Foreign unlisted or listed quoted	36 322	15	65	36 402
Foreign unlisted unquoted	-	415	148	563
Other unit-linked investments				
Local unlisted or listed quoted	251	3 252	21	3 524
Local unlisted unquoted	-	6 164	727	6 891
Foreign unlisted unquoted	-	-	123	123
Foreign unlisted or listed quoted	-	-	-	-
Investments in associates designated at fair value through income	17 253	-	-	17 253
Derivative financial instruments	8	2 762	-	2 770
Held for trading	8	2 762	-	2 770
Interest in subsidiary companies	64 998	-	3 275	68 273
Designated at fair value	-	-	2 742	2 742
Collective investment schemes	64 998	-	533	65 531
Non-financial assets	-	-	7 963	7 963
Owner-occupied properties	-	-	1 642	1 642
Investment properties	-	-	6 321	6 321
	272 489	79 258	13 968	365 715

Collective investment schemes, Investments in collective investment scheme subsidiaries and Investments in associates designated at fair value through income are classified as level 1 due to there being an active market of transactions between investors and collective investment schemes based on a published price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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

	Financial instruments					Non-financial instruments		Non-current assets		Total
	At fair value through income					Derivative financial instruments	Owner-occupied properties	Investment properties	Investment properties	
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument	Interest in subsidiary companies	Held for trading				
Rm	Rm	Rm		Rm	Rm	Rm	Rm	Rm	Rm	
2019										
Opening balance	34	1 611	1 085	-	3 275	-	1 642	6 321	-	13 968
Transfer from/(to) other asset classes	-	-	-	-	-	-	-	-	-	-
Total realised gains/(losses) in net realised and fair value gains in the income statement	(7)	19	151	-	(78)	-	(31)	-	-	54
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	77	20	100	-	(23)	-	(67)	204	-	316
Total gains/(losses) in other comprehensive income	-	-	(172)	-	172	-	(200)	-	-	(200)
Accrued interest in investment income in the income statement	-	80	117	-	(117)	-	-	-	-	80
Purchases	-	377	731	-	470	-	50	1 321	-	2 979
Sales/settlements – at fair value	(2)	(1 178)	(398)	-	(81)	-	(644)	(683)	-	(3 005)
Transfers into level 3	-	40	155	-	-	-	-	-	-	342
Transfers out of level 3	(1)	-	(85)	-	-	-	-	-	-	(86)
Closing balance	101	969	1 684	-	3 618	-	750	7 163	-	14 448

NOTES TO THE FINANCIAL STATEMENTS

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	Financial instruments					Derivative financial instruments Held for trading	Non-financial instruments		Non-current assets		Total
	Designated at fair value through income						Interest in subsidiary companies	Owner-occupied properties	Investment properties	Investment properties	
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument							
2018	Rm	Rm	Rm		Rm	Rm	Rm	Rm	Rm	Rm	
Opening Balance	101	1 602	2 299	135	4 261	3	1 851	6 639	-	16 891	
Transfer from/(to) other asset classes	-	-	-	-	-	-	(112)	112	-	-	
Total realised gains/(losses) in net realised and fair value gains in the income statement	3	36	868	3	25	-	(45)	-	-	890	
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	(12)	6	50	-	(191)	-	-	246	-	99	
Total gains/(losses) in other comprehensive income	-	-	-	-	(1 096)	-	61	-	-	(1 035)	
Accrued interest in investment income in the income statement	-	5	-	9	-	-	-	-	-	14	
Purchases	-	503	1 060	46	1 422	-	61	281	-	3 373	
Sales/settlements - at fair value	(58)	(729)	(3 232)	(193)	(1 146)	-	(174)	(957)	-	(6 489)	
Transfers into level 3	-	289	39	-	-	-	-	-	-	328	
Transfers out of level 3	-	(100)	-	-	-	(3)	-	-	-	(103)	
Closing balance	34	1 612	1 084	-	3 275	-	1 642	6 321	-	13 968	

NOTES TO THE FINANCIAL STATEMENTS

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

	Financial instruments						Total
	At fair value through income (1)					Derivative financial instruments	
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument	Interest in subsidiary companies	Held for trading	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2019							
Carrying amount	101	969	1 684	-	3 618	-	6 535
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	10	(10)	168	-	362	-	546
Effect of decrease in assumption	(10)	10	(168)	-	(362)	-	(546)
2018							
Carrying amount	34	1 612	1 084	-	3 275	-	6 005
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	3	(16)	108	-	328	-	423
Effect of decrease in assumption	(3)	16	(108)	-	(328)	-	(423)

(1) For prior year, this line item was classified as designated at fair value through income in terms of IAS 39 and has not been restated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rm	Rm	Rm	Rm
Assets				
Financial assets at amortised cost (2018: Loans and receivables)	7 343	7 343	6 132	6 151
Loans	5 667	5 667	5 250	5 269
Unsettled trades	801	801	273	273
Accounts receivable	875	875	609	609
Cash and cash equivalents	12 478	12 478	12 478	12 478
	19 821	19 821	18 610	18 629

Calculation of fair value

- For accounts receivable, unsettled trades, cash and cash equivalents and receivables arising from investment contracts, the carrying amount approximates fair value due to their short-term nature.
- The company's policy loan values are based on the surrender values.
- For the remainder of the loans, the carrying amount approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

NOTES TO THE FINANCIAL STATEMENTS

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Financial assets summarised by measurement category in terms of IFRS 9 (1)	Fair Value Through Income			Amortised cost (3)	Other measurement basis (3)	Total
	Mandatorily	Designated (2)	Total Fair Value			
	Rm	Rm	Rm			
2019						
Equity securities (4)	43 114	-	43 114	-	-	43 114
Debt securities	87 834	537	88 371	-	-	88 371
Funds on deposit and other money market instruments	11 693	48	11 741	-	-	11 741
Unit-linked investments	130 321	-	130 321	-	-	130 321
Investments in associates at fair value through income	21 271	-	21 271	-	-	21 271
Investments in subsidiaries at fair value through income	67 454	-	67 454	-	-	67 454
Derivative financial instruments	2 375	-	2 375	-	-	2 375
Financial assets at amortised cost (excluding prepayments)	-	-	-	7 248	-	7 248
Insurance and other receivables (excluding accelerated rental)	-	-	-	-	2 442	2 442
Cash and cash equivalents	-	-	-	12 478	-	12 478
Total financial assets	364 062	585	364 647	19 726	2 442	386 815

(1) Comparative information not required in terms of IFRS 9.

(2) Assets designated at fair value mainly consists of policyholder assets which back policyholder liabilities which are carried at fair value through income. The amount of change, during the period and cumulatively, in the fair value of financial assets designated at fair value through income that is attributable to changes in the credit risk of the financial asset is determined as the change triggered by factors other than changes in the benchmark rate. The impact of the changes in credit risk for the current and prior year was immaterial.

(3) The carrying amount of financial assets carried at amortised cost and insurance and other receivables approximates fair value. The carrying amount of other payables approximates fair value due to their short-term nature.

(4) Equity securities are classified as fair value through income at inception.

Business model assessment

The company's financial asset classification is determined based on the contractual cash flows characteristics and models through which financial instruments are managed (business model). The level at which the business model assessment is done is determined by the company and is on a portfolio level.

Financial assets mandatorily at fair value through income

All shareholder assets are managed to maximise shareholder value creation on a long-term sustainable basis through the optimised taking or minimising of market risk borne by shareholders, across the company. Shareholder value creation is measured on a basis that is risk adjusted, ie. returns achieved must fully compensate their associated risk profile, taking into account the earnings at risk, economic value at risk and solvency at risk perspectives. These assets are managed on a fair value basis and are classified mandatorily at fair value through income.

Policyholder unit-linked investments cash flows are not solely payments of principal and interest and are mandatorily at fair value through income. Policyholder derivatives are held for trading and are mandatorily at fair value through income.

Financial assets designated at fair value through income

Debt securities and funds on deposit and other money market instruments that back policyholder liabilities are designated at fair value through income to eliminate or reduce accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

- Certain policyholder fixed income assets follow an enhanced immunisation strategy which implies that while the inherent risk is well managed the cash flows would not be strictly matched. The strategy therefore involves buying and selling securities to keep the risks within risk limits and to meet contractual liability flows.

- Other policyholder fixed income assets are managed in accordance with an IMA (Investment Management Agreement) that does not allow fund managers to enter into activities which are deemed to be speculative or profit-taking in nature. These fixed income instruments are purchased with the intent of achieving stated investment return objectives through capital return and interest income. Portfolio managers sell these assets from time to time to honour contractual liabilities or to manage inherent market risk factors.

Collective investment schemes

A number of collective investment schemes are classified as subsidiaries of the company. Refer to Annexure A for a list of significant schemes. The majority of these funds are held with an objective of capital growth. For those funds not held for capital growth, a look-through basis was applied to determine the business model. The majority of the underlying assets are sold before maturity and the fund's performance and management fee is based on the fair value of the underlying assets and therefore have been classified mandatorily at fair value through income.

Impairment

The impairment for financial assets is based on assumptions about risk of default and expected loss rates, which includes the estimation of future cash flows and the significant increase in credit risk. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

	2019 Rm	2018 Rm
12 REINSURANCE CONTRACTS		
Reinsurance asset relating to long-term insurance	1 298	1 141
Prepaid reinsurance	833	731
	<u>2 131</u>	<u>1 872</u>
Balance at beginning	1 872	1 714
Movement charged to income statement	259	158
Balance at end	<u>2 131</u>	<u>1 872</u>
Current	1 168	1 031
Non-current	963	841
	<u>2 131</u>	<u>1 872</u>

Refer to note 16 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

Amounts due from reinsurers in respect of claims incurred by the company on contracts that are reinsured, are included in insurance and other receivables. Refer to note 8.

	2019 Rm	2018 Rm
13 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE		
Non-current assets held for sale		
Owner occupied properties	622	-
	<u>622</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

The non-current asset held for sale in 2019 relates to the intention to sell owner occupied buildings to a subsidiary of the company. It is expected that the transaction will be completed in the next 12 months. There were no non-current assets and liabilities held for sale at 30 June 2018.

	2019	2018
	Rm	Rm
14 INSURANCE CONTRACTS		
Long-term insurance contracts – gross	104 435	98 009
Less: recovery from reinsurers (note 12)	(2 131)	(1 872)
Long-term insurance contracts – net	102 304	96 137
<i>Movement in long-term insurance contract liabilities</i>		
Balance at beginning	98 009	96 613
Transfer to / from policyholder liabilities under insurance contracts	6 426	1 396
Increase in retrospective liabilities	720	1 156
Unwind of discount rate	3 673	3 093
Expected release of margins	(2 747)	(2 621)
Expected cash flows	(3 273)	(3 510)
Change in economic assumptions	(257)	(29)
Change in non-economic assumptions	349	816
New business	7 288	1 699
Experience variances	673	792
Balance at end	104 435	98 009
Open-ended	17 104	14 822
Current	11 650	12 727
Non-current	75 681	70 460
	104 435	98 009

NOTES TO THE FINANCIAL STATEMENTS

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	2019 Rm	2018 Rm
15 INVESTMENT CONTRACTS		
Investment contracts with DPF	21 859	22 752
Investment contracts designated at fair value through income	237 550	235 777
Total investment contract liability	259 409	258 529
<i>Movement in investment contracts with DPF</i>		
Balance at beginning	22 752	22 750
Transfer from policyholder liabilities under investment contracts with DPF	(893)	2
Increase/(decrease) in retrospective liabilities	(888)	(28)
Unwind of discount rate	2	(2)
Expected release of margins	(121)	(116)
Expected cash flows	(83)	(125)
Change in economic assumptions	(2)	(1)
Change in non-economic assumptions	(11)	20
New business	307	339
Experience variances	(97)	(85)
Balance at end	21 859	22 752
Open-ended	17 765	18 302
Current	635	690
Non-current	3 459	3 760
	21 859	22 752
<i>Movement in investment contracts designated at fair value through income</i>		
Balance at beginning	235 777	221 463
Sale of business	-	-
Transfer of business	-	31
Contract holder movements	1 773	14 283
Deposits received	32 465	32 647
Contract benefit payments	(36 979)	(33 592)
Fees on investment contracts	(2 601)	(2 238)
Fair value adjustment to policyholder liabilities under investment contracts	8 888	17 466
Balance at end	237 550	235 777
Open-ended	116 384	117 307
Current	6 934	7 137
Non-current	114 232	111 333
	237 550	235 777

The investment contracts designated at fair value through income would have been classified as financial liabilities at amortised cost under IFRS 9 had they not been designated at fair value through income.

For the IFRS 7 disclosures relating to investment contracts, refer to note 19.

Refer to note 16 for the assumptions and estimates used.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

16 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 standard of actuarial practice 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 in Annexure E.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by SAP 104
- Discretionary margins may be applied, as required by the valuation methodology or if the head of the actuarial function considers such margins necessary to cover the risks inherent in the contracts.

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 2018 for MML 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 2018 for MML retail businesses.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2018. 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 2018. Mortality assumptions for employee benefits contracts within the Momentum Corporate segment are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2018. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations on retail contracts are done regularly, the most recent being in respect of the period ended December 2018 for Momentum Retail. For Metropolitan Retail exposure is extremely low and morbidity rates are derived through collaboration with reinsurers. Assumptions relating to benefits under employee benefit contracts within the Momentum Corporate segment have been set relative to experience up to December 2018.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the company's own experience.
- For individual Permanent Health Insurance business (PHI), disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the Momentum Corporate segment, disability claim recovery probabilities are modelled using the group long-term disability table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for the company'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 MML retail business, the most recent being in respect of the period ended November 2018 for Metropolitan Retail business and December 2018 for Momentum Retail business.
- Surrender investigations are performed at least annually for MML retail business, the most recent being in respect of the period ended February 2019 for Metropolitan Retail business and December 2018 for Momentum Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Expenses

Expenses are allocated into three major categories, namely new business, maintenance and development and project expenses. Expenses are allocated into these categories, as well as per segment and product, using a variety of methods. These methods include direct allocations according to function and/or operational structure, functional cost analyses as well as pre-defined cost allocation models.

- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2020 financial year and allows for escalation at the assumed expense inflation rate. An addition to the expense inflation is assumed in respect of certain books of business within the Momentum Life and Momentum Investments segments to reflect the impact of the run-off of closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.

Investment returns for other asset classes are set as follows:

- Property rate: gilt rate + 1.0% (2018: + 1.0%)
- Corporate bonds: gilt rate + 0.5% (2018: + 0.5%)
- Cash rate: gilt rate - 1.0% (2018: - 1.0%)

An inflation rate of 6.0% p.a. for ZAR denominated business was used to project future renewal expenses over the planning horizon (3 years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves.

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

	2019	2018
Gilt rate - risk-free investment return	9.3%	9.5%
Renewal expense inflation	6.3%	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)

- A market-consistent stochastic model was calibrated using market data as at 30 June 2019 and 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 model that was used to calculate the liabilities.

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
Yield % - 2019	6.3	6.7	7.0	7.4	7.8	9.3	10.4	10.9	11.0	11.0	10.8	10.6
Yield % - 2018	7.1	7.6	8.0	8.3	8.6	9.6	10.1	10.4	10.6	10.6	10.5	10.4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

The following instruments have been valued by the model:

Instrument	2019		2018	
	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	5.1%	16.9%	5.5%	18.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	1.0%	21.2%	1.2%	22.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0294 (2018: 1.0388)	6.3%	16.2%	7.0%	18.1%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	5.3%	18.3%	5.7%	20.9%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to (1.04) ⁵ of spot	10.9%	17.2%	10.9%	19.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.2837 (2018: 1.3416)	13.2%	16.9%	14.9%	18.9%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	0.6%	22.0%	1.2%	25.3%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to (1.04) ²⁰ of spot	4.3%	21.6%	6.6%	24.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 4.8887 (2018: 4.5263)	22.9%	21.5%	25.2%	23.8%
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	4.9%	11.0%	4.7%	12.4%
A 20-year put on an interest rate with a strike equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year forward rate at the time of maturity (in 20 years) is lower than this strike price	0.3%	n/a	0.3%	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.

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 2019 by R124 million (2018: decrease of R508 million) for the company. The major contributors to this change were as follows for the company:
 - Actuarial methodology and other changes of negative R75 million (2018: positive R589 million).
 - Experience basis changes of negative R49 million (2018: negative R1 097 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation and investment over- or under-performance in respect of non-linked business is included under this heading.

Sensitivity analysis

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discontinu-ance rates decrease by 10%	Mortality and morbidity decrease by 5%	Investment returns reduce by 1%
2019	Rm	Rm	Rm	Rm	Rm	Rm
Insurance business						
Retail insurance business (excluding annuities)	52 735	51 434	51 826	53 076	49 746	53 680
Annuities (retail and employee benefits)	49 057	48 889	48 917	49 057	49 625	51 615
Employee benefits business (excluding annuities)	2 643	2 642	2 642	2 643	2 649	2 746
Investment with DPF business	21 859	21 855	21 863	21 868	21 868	22 081
Investment business	237 550	237 548	237 549	237 549	237 550	239 895
Total	363 844	362 368	362 797	364 193	361 438	370 017
	Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discontinu-ance rates decrease by 10%	Mortality and morbidity decrease by 5%	Investment returns reduce by 1%
2018	Rm	Rm	Rm	Rm	Rm	Rm
Insurance business						
Retail insurance business (excluding annuities)	53 900	52 784	53 181	54 330	51 372	54 798
Annuities (retail and employee benefits)	41 622	41 452	41 482	41 622	42 168	43 686
Employee benefits business (excluding annuities)	2 487	2 486	2 486	2 487	2 494	2 542
Investment with DPF business	22 752	22 735	22 742	22 748	22 744	22 961
Investment business	235 777	235 771	235 773	235 778	235 788	237 870
Total	356 538	355 228	355 664	356 965	354 566	361 857

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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 on this class of business can be obtained by noting that a 5% (2018: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R119.2 million (2018: R122.5 million) in the before-tax earnings of the company.

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 company'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.

	2019	2018
	Rm	Rm
17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME		
Subordinated call notes	4 431	4 374
Carry positions	5 576	3 973
	10 007	8 347
Current	6 332	4 725
Non-current	3 675	3 622
	10 007	8 347

- The change in the fair value of financial liabilities designated at fair value through income due to own credit risk was immaterial for the current year.
- Subordinated call notes (unsecured) - the Financial Services Board (FSB) granted approval for the company to raise debt issuances. The company has sufficient cash to cover the debt. Refer to note 43 for more detail.
- Carry positions (secured) - R510 million (2018: R284 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 R509 million (2018: R282 million). Offsetting has not been applied.
- These instruments would have been disclosed as at amortised cost or fair value through other comprehensive income under IFRS 9 had they not been designated at fair value through income in the current year. In the prior year these instruments would have been disclosed as payable under IAS 39 had they not been designated at fair value through income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
18 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	4 945	4 876
Claims in process of settlement		
Insurance contracts	3 186	3 018
Investment contracts with DPF	1 053	1 024
Premiums paid in advance	686	686
Due to reinsurers	20	148
Payables arising from investment contracts	1 079	981
Deferred revenue liability (1)	225	239
Loans due to subsidiaries and fellow MMH subsidiaries	43	142
Commission creditors	759	750
Unsettled trades	640	265
Other payables	2 475	2 138
	10 166	9 391
Current	9 269	8 282
Non-current	897	1 109
	10 166	9 391
Reconciliation of deferred revenue liability		
Balance at beginning of year	239	255
Deferred income relating to new business	51	103
Amount recognised in income statement (refer to note 27)	(65)	(119)
Balance at end of year	225	239

(1) The deferred revenue liability balance at 30 June 2019 will be recognised as revenue as follows: R5 million (within 1 year), R63 million (between 1 - 5 years), R118 million (between 5 - 10 years) and R39 million (after 10 years). Refer to the accounting policy in Annexure E.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

19 FINANCIAL LIABILITIES HIERARCHY

Refer to Annexure F for the valuation techniques relating to this note.

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

2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	-	237 521	29	237 550
Financial liabilities at fair value through income	-	10 007	-	10 007
Subordinated call notes	-	4 431	-	4 431
Carry positions	-	5 576	-	5 576
Derivative financial instruments	-	2 219	-	2 219
Held for trading	-	2 219	-	2 219
	-	249 747	29	249 776

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	-	235 752	25	235 777
Financial liabilities designated at fair value through income	-	8 347	-	8 347
Subordinated call notes	-	4 374	-	4 374
Carry positions	-	3 973	-	3 973
Derivative financial instruments	-	2 013	-	2 013
Held for trading	-	2 013	-	2 013
	-	246 112	25	246 137

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

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

	Investment contracts	
	2019 Rm	2018 Rm
Opening Balance	25	35
Total realised gains/losses in net realised and fair value gains in the income statement	-	-
Total unrealised gains/losses in net realised and fair value gains in the income statement	3	2
Contract holder movements		
Benefits paid	-	(12)
Investment return	1	-
Closing Balance	29	25

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying amount of level 3 financial instrument liabilities by R2.4 million (2018: R2.4 million) and R2.4 million (2018: R2.4 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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

	2019		2018	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Liabilities				
Investment contracts with DPF	21 859	21 859	22 752	22 752
Other payables	11 245	11 245	10 372	10 372
Payables arising from investment contracts	1 079	1 079	981	981
Other payables	10 166	10 166	9 391	9 391
	33 104	33 104	33 124	33 124

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.
- For payables arising from investment contracts and other payables, the carrying amount approximates fair value due to their short-term nature.

Financial liabilities summarised by measurement category in terms of IFRS 9 (1)	Fair Value Through Income			Amortised cost Rm	Other measurement basis Rm	Total Rm
	Mandatorily Rm	Designated (2) Rm	Total Fair Value Rm			
Investment contracts with DPF (2)	-	-	-	-	21 859	21 859
Investment contracts designated at fair value through income	-	237 550	237 550	-	-	237 550
Derivative financial instruments	2 219	-	2 219	-	-	2 219
Subordinated call notes	-	4 431	4 431	-	-	4 431
Carry positions	-	5 576	5 576	-	-	5 576
Other payables (excluding premiums in advance and deferred revenue liability)	-	-	-	5 843	4 323	10 166
Total financial liabilities	2 219	247 557	249 776	5 843	26 182	281 801

(1) Comparative information not required in terms of IFRS 9.

(2) The value of investment contracts with discretionary participation features (DPF) is the retrospective accumulation of the fair value of the underlying assets, which has been used as an approximation for the fair value of this financial liability as the fair value cannot be measured reliably. There is no intention to dispose of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

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	2019 Rm	2018 Rm
20 DEFERRED INCOME TAX		
Deferred tax liability	(1 399)	(901)
	(1 399)	(901)
<i>Deferred tax is made up as follows:</i>		
Accruals and provisions	9	(16)
Revaluations	(400)	(514)
Deferred tax on intangible assets as a result of business combinations	(155)	(198)
Deferred revenue liability	-	123
Difference between published and statutory policyholder liabilities	-	945
Negative rand reserves	(658)	(992)
Deferred acquisition costs	-	(540)
Deferred assessed losses	11	442
Prepayments	-	(16)
Other	(206)	(135)
	(1 399)	(901)
Current	(84)	419
Non-current	(1 315)	(1 320)
	(1 399)	(901)
	2019 Rm	2018 Rm
<i>Movement in deferred tax</i>		
Balance at beginning	(901)	(994)
Charge to the income statement	(557)	104
Accruals and provisions	26	(3)
Revaluations	53	143
Deferred tax movement on intangible assets as a result of past business combinations	43	29
Deferred revenue liability	(122)	(4)
Difference between published and statutory policyholder liabilities	(945)	(22)
Negative rand reserves	333	(201)
Deferred acquisition costs	540	10
Deferred assessed losses	(431)	228
Prepayments	16	(10)
Other	(70)	(66)
Charge to other comprehensive income (note 24)	59	(11)
Balance at end	(1 399)	(901)
Deferred tax asset on available tax losses and credits not provided for	-	-

Deferred assessed losses

Management has performed projections and indicated on the earnings profile that utilisation of the Return Transfer Credit (RTC) will start in 2019 and will be fully utilised by 2021. However, the utilisation will be further accelerated as an additional R 3.5 billion of Negative Rand Reserves will be phased-in over six years which transfer tax will have to be paid on and therefore will assist in utilising the RTC.

Creation of deferred tax assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Critical accounting estimates and judgements

There may be transactions and calculations for which the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The company recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made.

Deferred tax on the revaluation of owner-occupied properties has been calculated using a combination of the normal South African income tax rate and the capital gains tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R14 million (2018: R32 million) lower.

	2019	2018
	Rm	Rm
21 EMPLOYEE BENEFIT ASSETS		
Metropolitan Staff Retirement Fund (MSRF)	74	69
Metropolitan Staff Pension Fund (MSPF)	79	73
Sage Group Pension Fund (SGPF)	313	291
Fair value of plan assets	<u>466</u>	<u>433</u>

Group Retirement Scheme (GRS)

With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the funds below converted to the GRS. The GRS is a defined contribution fund. Contributions for the current year are included in note 30.

Sage Group Pension Fund (SGPF)

All full time employees in the company are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Sage Group Pension Fund (SGPF) is a final salary defined benefit plan and is valued by independent actuaries every three years. The latest actuarial valuation of this fund indicated that the fund was found to be in a sound financial position.

Momentum Metropolitan Life Ltd, 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 company has no liability relating to this scheme.

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. The company 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

During the 2014 financial year the majority of the remaining active members transferred to other retirement fund arrangements in the company 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 was transferred in the 2016 financial year and the fund was wound-up.

Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2019. 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.

NOTES TO THE FINANCIAL STATEMENTS

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	2019 Rm	2018 Rm
22 EMPLOYEE BENEFIT OBLIGATIONS		
(a) Post-retirement medical benefits	147	151
(b) Cash-settled arrangements	252	242
Other employee benefit obligations	419	301
	818	694
Current	547	394
Non-current	271	300
	818	694

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

(a) Post-retirement medical benefits

Balance at beginning – unfunded	151	210
Current service costs	2	2
Interest expense	14	15
Actuarial losses - Other comprehensive income	(15)	(20)
Transfers	-	(59)
Past service cost and gains and losses on settlements/ curtailments (expensed)	-	8
Benefits paid	(5)	(5)
Balance at end – unfunded	147	151

Valuation methodology

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

The key valuation assumptions are:

Assumptions	Base assumption		Change in value of liability		
			Change in significant assumption	Decrease in significant assumption	Increase in significant assumption
			Rm	Rm	Rm
Healthcare cost inflation rate					
Defined benefit fund	7.50%	(2018: 8.00%)	1.00%	(14)	18
Valuation rate of interest/ discount rate	9.45%	(2018: 9.75%)	1.00%	(10)	12
Administration fee inflation	6.00%	(2018: 6.50%)			
Normal retirement age	60 years				
Mortality					
Pre-retirement	SA 72-77				
Post-retirement	PA(90)-2				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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

	2019 Rm	2018 Rm
Current	10	11
Non-current	137	140
1 to 5 years	79	84
5 to 10 years	36	36
> 10 years	721	762
Effect of discounting	(699)	(742)
	147	151

	2019 Rm	2018 Rm
(b) Cash-settled arrangements		
<i>Retention and remuneration schemes</i>		
Balance at beginning	242	312
Additional provisions	80	82
Benefits paid	(70)	(152)
Balance at end	252	242
Current	117	82
Non-current	135	160
	252	242

Share schemes

Long-term Incentive Plan (LTIP)

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

The performance units have performance criteria based on minimum hurdles related to the return on embedded value (ROEV) of the company. The units will therefore vest after a period of three years, and the company'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 the vesting date, subject to the employee remaining in the employ of the company, and not being subject to disciplinary action during the period between the award date and the vesting date.

The deferred bonus units represent the deferred portion of short-term incentives above a threshold. These units vest subject to the employee remaining in the employ of the company on the vesting date, and not being subject to disciplinary action during the period between the award date and the vesting date.

When the retention units, performance units and deferred bonus 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 MMH share (average of 20 trading days before the settlement date).

Outperformance Plan (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 company's targeted Return on Embedded Value (ROEV) of Nominal GDP + 6%. Participants are primarily awarded performance units (vesting subject to certain company and individual performance criteria being met), while participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

The plan is a phantom incentive plan in that a participant shall not be entitled to MMH 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 MMH 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.

Share Appreciation Rights Scheme (SAR)

The SAR commenced in October 2018, and is a performance-based cash-settled option scheme in terms of which certain executives are allocated Share Appreciation Rights (SARs) in MMH shares. The SARs simulate “at-the-money” call options on MMH shares, meaning that the growth in the share price between the allocation date and the vesting date will accrue to the participant at the vesting date. Vesting takes place after the performance period of three years, and payment of the vested amount will take place in equal thirds after three, four and five years, at the ruling MMH share price based on the 20 day VWAP price up to payment date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	OP	OP	LTIP	LTIP	LTIP	SAR
	Performance	Retention	Performance	Retention	Deferred	Total units
	units	units	units	units	bonus units	
	'000	'000	'000	'000	'000	'000
Units in force at 1 July 2017	10 163	214	15 679	12 803	-	-
Units granted during year	535	11	13 933	9 627	-	-
Units transferred from / (to) other group companies during year	-	-	(218)	(91)	-	-
Units exercised/ released during year	-	-	(4 011)	(3 797)	-	-
Market value of range at date of exercise/release (cents)	-	-	1 847 - 2 235	1 847 - 2 235	-	-
Units cancelled/lapsed during year	(3 600)	-	(4 080)	(2 193)	-	-
Units in force at 30 June 2018	7 098	225	21 303	16 349	-	-
Units granted during year	36	5	361	332	5 903	19 009
Units transferred from / (to) other group companies during year	-	-	(342)	(164)	(17)	-
Units exercised/ released during year	-	-	-	(3 648)	(92)	-
Market value of range at date of exercise/release (cents)	-	-	-	1 602-1 810	1 700-1 810	-
Units cancelled/lapsed during year	(5 498)	-	(8 463)	(2 019)	(408)	(2 449)
Units in force at 30 June 2019	1 636	230	12 859	10 850	5 386	16 560

Shares outstanding (by expiry date) for the LTIP and OP are as follows:

2019	OP	OP	LTIP	LTIP	LTIP	SAR
	Performance	Retention	Performance	Retention	Deferred	Total units
	units	units	units	units	bonus units	
	'000	'000	'000	'000	'000	'000
Financial year 2019/2020	1 636	230	3 791	3 851	1 795	-
Financial year 2020/2021	-	-	7 713	6 864	1 795	-
Financial year 2021/2022	-	-	507	135	1 796	5 520
Financial year 2022/2023	-	-	424	-	-	5 520
Financial year 2023/2024	-	-	424	-	-	5 520
Total outstanding shares	1 636	230	12 859	10 850	5 386	16 560

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Inputs used in valuation of the share schemes

LTIP	Valuation assumptions include			
	Outstanding tranche period in months	Take-up rate on units outstanding	Current vesting rate	Share price at year-end
Award date 01/10/2017 and vesting date 01/10/2020 - performance units	15	88%	0%	18.97
Award date 01/10/2017 and vesting date 01/10/2020 - retention units	15	88%	100%	18.97
Award date 01/04/2018 and vesting date 01/04/2021 - performance units	21	88%	0%	18.97
Award date 01/04/2018 and vesting date 01/04/2021 - retention units	21	88%	100%	18.97
Award date 09/04/2018 and vesting date 31/10/2021 - performance units	28	82%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2021 - performance units	27	82%	0%	18.97
Award date 01/10/2018 and vesting date 01/10/2021 - retention units	27	82%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2019 - deferred bonus units	3	94%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2020 - deferred bonus units	15	88%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2021 - deferred bonus units	27	82%	100%	18.97

Vesting rate assumptions regarding performance units in the previous table and next table

Long-term Incentive Plan (LTIP)

The performance criterion under the LTIP compares MMH's return on embedded value (ROEV) against the average risk free rate of return over the vesting period. The ROEV target is "risk free + 3%", with outperformance considered to be "risk free + 6%". "Risk free" in this context refers to the 10-year yield to maturity on RSA government bonds, averaged over the vesting period. The vesting period is three years.

The LTIP liability as at 30 June 2019 was calculated assuming zero performance units issued before 2018 (maturing in 2019 and 2020) will vest and 100% of units issued in 2018 (vesting in 2021 with settlement dates in 2021, 2022 and 2023) will vest. Actual vesting percentages in 2021 to 2023 might be lower, unless there is a material improvement in future ROEV.

Compared to the ROEV assumptions used in the LTIP liability calculation, an additional one percentage point increase in ROEV is not expected to result in a materially higher LTIP cost, for LTIP tranches in force at 30 June 2019. An additional two percentage points increase in the future ROEV is expected to result in additional vesting of 10% of affected performance units under the LTIP, at an expected cost of R2 million. At the current point in time, and taking into account historic performance to date (30 June 2019), the LTIP liability is relatively insensitive to modest improvements in ROEV.

Outperformance Plan (OP)

This scheme, restricted to a few key employees, targets a return on embedded value equal to the growth in nominal GDP + 6%. The vesting period is 5 years, measured from 2014 (maturing in 2019).

As at 30 June 2019, it was estimated that none of the OPP performance units maturing in 2019 will vest.

The cost associated with this scheme is not sensitive to future ROEV assumptions, as the period over which performance criteria is measured has closed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Share Appreciation Rights Scheme (SAR)

The SAR features three performance criteria measured over the vesting period years. One third of the SARs will vest for each performance criterion that is met or exceeded. The performance criteria are:

- Normalised Headline Earnings growth over the vesting period to meet or exceed an average of 11% p.a.
- Average ROEV over the vesting period to exceed the 10-year SA Government Bond rate (the risk free rate) plus 3%
- Total Shareholder Return (TSR) over the vesting period to exceed the TSR of an equal-weighted index of MMH's main listed peers

The SAR award specifies a strike price, which will determine the value of vested SARs as at the vesting date. A vested SAR is worth the greater of zero and the amount by which the company share price exceeds the strike price.

The SAR liability as at 30 June 2019 was calculated on an assumption that 100% of units issued in 2019 (vesting in 2021, with settlement dates in 2021, 2022 and 2023) will vest. Actual vesting percentages in 2021 might be lower.

Compared to the ROEV assumptions used in the SAR liability calculation, any additional increase in ROEV is not expected to result in a higher SAR cost as the maximum vesting percentage has already been assumed.

OP

	Valuation assumptions include			
	Outstanding tranche period in years	Take-up rate on units outstanding	Current vesting rate	Share price at yearend
Award date 05/03/2015 and vesting date 01/10/2019 - performance units	3	94%	0%	18.97
Award date 05/03/2015 and vesting date 01/10/2019 - retention units	3	94%	100%	18.97

SAR

	Valuation assumptions include			
	Outstanding tranche period in years	Take-up rate on units outstanding	Current vesting rate	Share price at yearend
Award date 01/10/2018 and vesting date 01/10/2021 - performance units	27	82%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2022 - performance units	39	76%	100%	18.97
Award date 01/10/2018 and vesting date 01/10/2023 - performance units	51	70%	100%	18.97

Momentum Sales Scheme (MSS) and Momentum Sales Phantom Scheme (MSPS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. In November 2013 it was decided to no longer issue options under this scheme. There are no longer any options in force at the end of the current year.

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 company will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the company and therefore the scheme is cash-settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	MSPS '000	MSS '000
Units/Options in force at 1 July 2017	6 139	1 452
Granted at prices ranging between (cents)	-	1699-2256
Units/Options granted during year	1 172	-
Granted at prices ranging between (cents)	1871-1871	-
Units/Options exercised/ released during year	(1 204)	(3)
Market value of range at date of exercise/release	1876-2262	1976-2000
Units/Options cancelled/lapsed during year	(558)	(1 449)
Granted at prices ranging between (cents)	1976-2250	1976-2000
Units/Options in force at 30 June 2018	5 549	-
Granted at prices ranging between (cents)	1 702-2 615	-
Units/Options granted during year	708	-
Granted at prices ranging between (cents)	1 702-1 702	-
Units/Options exercised/ released during year	(1 447)	-
Market value of range at date of exercise/release	1 602-1 769	-
Units/Options cancelled/lapsed during year	(414)	-
Granted at prices ranging between (cents)	1 702-3 298	-
Units/Options in force at 30 June 2019	4 396	-

Shares outstanding (by expiry date) for the MSS and MSPS are as follows:

2019	MSPS R'000	MSS R'000
Financial year 2019/2020	1 393	-
Financial year 2020/2021	1 197	-
Financial year 2021/2022	1 010	-
Financial year 2022/2023	571	-
Financial year 2023/2024	225	-
Total outstanding shares	4 396	-

Valuation assumptions

	2019		2018	
	MSPS	MSS	MSPS	MSS
Share price	1 702-3 298		2286-3298	1778
Volatility				11.4%
Dividend yield				6.8%
Forfeiture rate	5.0%		5.0%	5.0%
Risk-free yield curve				6.80%-6.81%

Share based payment expense

The share based payment expense relating to cash settled schemes is R80 million (2018: R98.4 million) for the company and is disclosed under employee benefit expenses in note 32.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
23 SHARE CAPITAL AND SHARE PREMIUM		
Authorised share capital of Momentum Metropolitan Life Ltd		
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 - fully paid		
Balance at beginning	1 041	1 041
Balance at the end	1 041	1 041
Share capital	9	9
Share premium	1 032	1 032
Balance at the end	1 041	1 041

Momentum Metropolitan Life Ltd had 190 million ordinary shares in issue at 30 June 2019 (2018: 190 million).

Preference shares

Momentum Metropolitan Life Ltd has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 25.

Dividends

For detail of dividends declared and paid during the year, refer to the directors' report and to note 38.3 on related party transactions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
24 OTHER COMPONENTS OF EQUITY		
(a) Land and building revaluation reserve	370	545
(b) Revaluation of subsidiaries	(43)	62
(c) Employee benefit revaluation reserve	100	100
(d) Common control reserve	4 729	4 729
	5 156	5 436

Movements in other reserves

(a) Land and building revaluation reserve		
Balance at beginning	545	673
Earnings directly attributable to other components of equity	(142)	44
Revaluation	(203)	54
Deferred tax on revaluation	61	(10)
Transferred to retained earnings	(33)	(172)
Balance at end	370	545

The transfer of R33 million (2018: R172 million) to retained earnings relate to the difference between the depreciation charge on the revalued amount and the amount which would have been charged under the historic cost model, net of any related deferred tax.

(b) Revaluation of subsidiaries		
Balance at beginning	62	1 508
Fair value movement on subsidiaries	(61)	(1 096)
Transfer to income statement on sale of subsidiary	-	(350)
Transferred to retained earnings	(44)	-
Balance at end	(43)	62

There is no deferred tax consequences relating to the revaluation of the subsidiaries classified as available for sale. The company does not provide for deferred taxation where the timing of the reversal of temporary differences are controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. As the company does not foresee the subsidiaries held as available for sale to be disposed of in the foreseeable future, no deferred tax is raised on the revaluation thereof.

(c) Employee benefit revaluation reserve		
Balance at beginning	100	88
Remeasurement of post-employment benefit obligations	2	13
Deferred tax on remeasurement	(2)	(1)
Balance at end	100	100

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
(d) Common control reserve		
Balance at beginning	4 729	4 678
Acquisition	-	51
Balance at end	<u>4 729</u>	<u>4 729</u>

The company acquired the long-term insurance business of Metropolitan Life Ltd with effect from 31 May 2013. The prior year movement related to the administration business of Momentum Retirement Administrators (Pty) Ltd which was also acquired with effect from 1 April 2017. This reserve reflects the difference between the purchase consideration and the book value of the assets and liabilities of a common control business combination.

	2019 Rm	2018 Rm
25 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by Momentum Metropolitan Life Ltd		
Balance at beginning	500	500
Total comprehensive income	34	35
Dividend paid	<u>(34)</u>	<u>(35)</u>
Balance at end	<u>500</u>	<u>500</u>

This represents preference shares issued by the company to Momentum Metropolitan Holdings Ltd. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends in the current year amounted to R34 million (2018: R35 million).

	2019 Rm	2018 Rm
26 NET INSURANCE PREMIUMS		
Premiums received	27 510	21 355
Long-term insurance contracts	25 657	19 607
Investment contracts with DPF	1 853	1 748
Premiums received ceded to reinsurers	<u>(2 405)</u>	<u>(2 269)</u>
	<u>25 105</u>	<u>19 086</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
27 FEE INCOME		
Contract administration	2 615	2 254
Investment contract administration	2 550	2 135
Release of deferred front-end fees	65	119
Trust and fiduciary services	445	404
Asset management	8	-
Retirement fund administration	437	404
Health administration	-	-
Other income	145	129
Other	145	129
	3 205	2 787

Revenue disaggregation

Revenue from contracts with customers is disaggregated by type of revenue and also split per the company's reporting segments. This most accurately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2019 Rm	2018 Rm
28 INVESTMENT INCOME		
At fair value through income		
Dividend income – listed	3 365	2 779
Dividend income – unlisted	1 039	701
Dividends received from subsidiary companies	273	246
Interest income	11 528	11 049
At fair value through income	10 984	10 048
Amortised cost using the effective interest rate method		
Loans and receivables	111	125
Cash and cash equivalents	431	876
Non-financial assets	2	-
Rental income	1 021	922
Investment properties	1 012	913
Owner-occupied properties	9	9
	17 226	15 697

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
29 NET REALISED AND FAIR VALUE GAINS		
Financial assets	2 981	(1 343)
At fair value through income	-	(1 322)
Designated at fair value through income	1 101	-
Mandatorily at fair value through income	1 624	-
Derivative financial instruments	251	(28)
Net realised and unrealised foreign exchange differences on financial instruments not at fair value through income	5	7
Financial liabilities	(56)	(4)
At fair value through income	-	(4)
Designated at fair value through income	(56)	-
Investment property	204	246
As per valuation	210	243
Change in accelerated rental income	(6)	3
Profit / (loss) on sale of subsidiary	-	(403)
Transfer from revaluation reserve on sale of subsidiary	-	350
Fair value gains / (losses) on investment in subsidiary companies	68	123
Fair value gains / (losses) on investment in collective investment scheme subsidiaries	668	16 189
Fair value gains / (losses) on investment in collective investment scheme associates	(607)	735
Profit / loss on sale of fixed assets	(1)	(2)
Other investments	12	3
	3 269	15 894
	2019 Rm	2018 Rm
30 NET INSURANCE BENEFITS AND CLAIMS		
Long-term insurance contracts	19 379	20 353
Death and disability claims	9 135	8 519
Maturity claims	3 634	3 509
Annuities	4 170	3 681
Surrenders	2 198	2 407
Terminations and withdrawal benefits	136	2 157
Other	106	80
Investment contracts with DPF	3 154	3 312
Death and disability claims	99	78
Maturity claims	842	913
Annuities	142	148
Surrenders	326	534
Terminations and withdrawal benefits	1 742	1 637
Other	3	2
	22 533	23 665
Amounts recovered from reinsurers	(2 112)	(1 927)
	20 421	21 738

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019	2018
	Rm	Rm
31 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES		
Depreciation	86	97
Owner-occupied properties (note 3)	31	46
Equipment	55	51
Amortisation (note 2)	77	79
Value of in-force acquired	43	43
Customer relationships	3	3
Computer software - acquired	4	5
Computer software - internally developed	27	28
Impairment of intangible assets (note 2)	-	53
Computer software - internally developed	-	53
Impairment	89	345
Owner-occupied properties below cost	67	-
Investments in subsidiaries below cost	-	345
Equipment	22	-
Impairment of financial assets	(119)	(17)
Loans and receivables at amortised cost	(119)	(17)
	133	557

An impairment assessment was performed on unlisted investments disclosed in note 5. The impairment of investments in subsidiaries below cost above relate to the write-off of the investment where the carrying amount exceeds the net asset value of the subsidiary.

	2019	2018
	Rm	Rm
32 EMPLOYEE BENEFIT EXPENSES		
Salaries	2 931	2 565
Contributions to medical aid funds	118	110
Defined contribution retirement fund	202	191
Post-retirement medical benefits	11	20
Retirement fund assets (note 21)	(46)	(32)
Share-based payment expenses (note 22)	80	82
Training costs	53	54
Other	18	24
	3 367	3 014

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
33 SALES REMUNERATION		
Commission incurred for the acquisition of insurance contracts	1 915	1 619
Commission incurred for the acquisition of investment contracts with DPF	18	18
Commission incurred for the acquisition of investment contracts without DPF	879	900
Amortisation of deferred acquisition costs	327	558
Movement in provision for impairment of amounts due from agents, brokers and intermediaries	(36)	(27)
	3 103	3 068
	2019 Rm	2018 Rm
34 OTHER EXPENSES		
Asset management fees	649	568
Auditors' remuneration	40	57
Bad debts written off	1	1
Bank charges	47	47
Consulting fees	255	367
Direct property operating expenses on investment property	410	395
Information technology expenses	389	355
Marketing costs	257	269
Office costs	306	355
Operating lease charges	123	74
Other indirect taxes	317	286
Policy services	38	41
Travel and entertainment expenses	155	128
Other sundry expenses	84	37
Expenses recovered from group companies	(685)	(597)
	2 386	2 383
	2019 Rm	2018 Rm
35 FINANCE COSTS		
Interest expense on financial liabilities at fair value through income		
Unsecured subordinated call notes	418	397
Carry positions	286	363
Other	49	42
	753	802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
36 INCOME TAX (CREDITS)/EXPENSES		
Current taxation	979	1 722
Shareholder tax		
South African normal tax - current period	423	755
South African normal tax - prior year	8	-
Foreign withholding tax	4	5
Contract holder tax		
Tax on contract holder funds - current period	544	962
Tax on contract holder funds - prior period	-	-
Deferred tax	557	(104)
Shareholder tax		
South African normal tax - current period	619	16
Contract holder tax		
Tax on contract holder funds - current period	(62)	(120)
	1 536	1 618
Tax rate reconciliation	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Prior year adjustments	0.2	-
Taxation on contract holder funds	10.8	26.3
Foreign tax differential	0.1	0.1
Capital gains tax	0.1	0.3
Non-taxable income	(5.5)	(9.0)
Non-deductible expenses	0.6	4.9
Effective rate	34.3	50.6

Non-taxable income consists of dividend income and other permanent differences on capital items which are non-taxable.

Non-deductible expenses consists of expenses for which no tax deduction is allowed as these are not in the production of income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
37 CASH FLOW FROM OPERATING ACTIVITIES		
37.1 Cash utilised in operations		
Profit before tax	4 480	3 196
Adjusted for		
Items disclosed in other notes		
Dividends received	(4 677)	(3 701)
Interest received	(11 528)	(11 049)
Finance costs	753	802
Non-cashflow items		
Net realised and fair value gains	(3 269)	(33 341)
Depreciation and amortisation expenses	163	176
Impairment charges	(52)	381
Deferred acquisition costs movement	327	558
Share-based payment and other employee benefit expenses	80	82
Staff and management bonuses liability	253	172
Leave pay liability	28	9
Financial liabilities at fair value through income	474	401
Reinsurance assets	(259)	(157)
Employee benefit assets and obligations	(35)	(34)
Deferred revenue liability movements	(65)	(119)
Accelerated rental income	6	(3)
Post-retirement medical benefit obligation	1	5
(Profit)/loss on sale of subsidiary	-	404
Changes in operating assets and liabilities		
Insurance and investment liabilities	7 307	15 712
Assets at fair value through income	(3 336)	15 191
Investments in associate	(3 319)	2 330
Financial assets at amortised cost (2018: Loans and receivables)	(1 519)	1 225
Insurance and other receivables	60	(149)
Change in employee benefit assets	2	20
Change in employee benefit obligations	(238)	(410)
Other operating liabilities	1 062	961
Cash utilised in operations	(13 301)	(7 338)
	2019 Rm	2018 Rm
37.2 Income tax paid		
Due at beginning	(979)	(696)
Charged to income statement	(1 537)	(1 618)
Charged directly to other comprehensive income	59	(11)
Due at end	1 676	979
	(781)	(1 346)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2019 Rm	2018 Rm
37.3 Interest paid		
Unsecured subordinated call notes	(418)	(397)
Carry positions	(286)	(363)
Other	(49)	(42)
	<u>(753)</u>	<u>(802)</u>
	2019 Rm	2018 Rm
37.4 Liabilities arising from financing activities		
Due at beginning	8 347	10 993
Repayment of borrowings	(5 140)	(7 770)
Proceeds from borrowings	6 326	4 723
Accrued interest	418	397
Fair value movement	56	4
Due at end	<u>10 007</u>	<u>8 347</u>

38 RELATED PARTY TRANSACTIONS

38.1 Major shareholders and group companies

The holding company of Momentum Metropolitan Life Limited is Momentum Metropolitan Holdings Limited, and the major shareholder in Momentum Metropolitan Holdings Limited is Rand Merchant Investment Holdings Limited (RMIH).

The most significant related parties of Momentum Metropolitan Life Limited are Momentum Asset Management (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Ability Limited, Momentum Global Investment Management Limited, Momentum Short-term Insurance Limited, MMI Short-term Insurance Administration (Pty) Ltd, Momentum Wealth International Limited, Momentum Multiply (Pty) Ltd (previously MMI Multiply (Pty) Ltd) and 102 Rivonia Road (Pty) Ltd, all subsidiaries of the company. Subsidiaries and associated companies of these companies are also related parties.

Significant subsidiaries of the company are listed in note 5, along with loans due to or from these entities.

Asset management and asset administration fees of R436 million (2018: R423 million) were paid to other MMH group companies during the year.

Various collective investment schemes in which the company invests are defined as subsidiaries as the company controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the company 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 company are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between the company 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.

38.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the company, as well as to non-executive directors (in the form of fees). Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors (whether executive or otherwise) of the entity. Detailed director's remuneration is provided in Annexure C.

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For the year ended 30 June 2019

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

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
	Rm	Rm
Salaries and other short-term employee benefits	18	32
Post-employment benefits	1	1
Termination benefits	-	7
Share-based payments	10	2
Director's fees	9	9
	38	51

The executive directors are members of the staff pension schemes and participate in the company's long-term retention schemes, the details of which are in notes 21 and 22.

Aggregate details of insurance and investment transactions between the company and key management personnel, their families and entities significantly influenced or controlled by key management personnel are as follows:

	2019	
	Insurance	Investment
	Rm	Rm
Fund value (at 30 June 2019)	1	143
Aggregate life and disability cover (at 30 June 2019)	680	-
Deposits/premiums (for 12 months to June 2019)	1	7
Withdrawals/claims (for 12 months to June 2019)	-	-

	2018	
	Insurance	Investment
	Rm	Rm
Fund value (at 30 June 2018)	1	137
Aggregate life and disability cover (at 30 June 2018)	17	-
Deposits/premiums (for 12 months to June 2018)	-	13
Withdrawals/claims (for 12 months to June 2018)	-	(2)

38.3 Dividends

The company declared a final ordinary dividend of R702 million (R3.70 per ordinary share) to Momentum Metropolitan Holdings Limited for the year ended 30 June 2018, which was only provided for during the 2019 financial year, compared to a final ordinary dividend of R1 550 million (R8.17 per ordinary share) for the year ended 30 June 2017, which was only provided for during the 2017 financial year.

The company also declared R833 million (2018: R1 497 million) in interim ordinary dividends being R4.39 (2018: R7.89) per ordinary share to Momentum Metropolitan Holdings Limited in March 2019 (2018: March 2018). Another R633.2 million (R3.34 per ordinary share) will be provided for during the 2020 financial year (as part of the final dividend declared in September 2019).

The company will declare a special dividend of R950 million (R5.01 per ordinary share) to Momentum Metropolitan Holdings Limited for the year ended 30 June 2019. The special dividend will be declared in December 2019 or early 2020 and it will be provided for during the 2020 financial year. The company did not declare a special dividend in the prior year.

The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends declared to Momentum Metropolitan Holdings Ltd in the current year amounted to R34 million (2018: R35 million).

38.4 Post-employment benefit plans

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

2019
Rm

2018
Rm

39 CAPITAL AND LEASE COMMITMENTS

Capital commitments

Authorised and contracted

The company started a project to refurbish certain owner-occupied buildings for R17 million, which will be incurred over the next 12 months.

There were no capital commitments as at 30 June 2018.

The minimum future lease payments receivable under non-cancellable operating leases on investment properties:

Less than 1 year	363	299
Between 1 and 5 years	926	559
More than 5 years	1 138	281
	2 427	1 139

40 CONTINGENT LIABILITIES

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

41 EVENTS AFTER THE REPORTING PERIOD

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

42 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the company 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 company simultaneously seeks to achieve higher levels of responsibility to all stakeholders.

The company is currently exposed to the following financial risks:

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

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

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

Credit risk: Credit risk is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment and non- investment activities, such as reinsurance credit risk, unsecured lending, amounts due from intermediaries and policy loans.

The sections that follow provide information on the processes in place to manage and mitigate the financial and insurance risks inherent in the contracts issued by the company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

42.1 Classes of assets

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

	2019 Rm	2018 Rm
Assets		
Financial assets carried at fair value		
At fair value through income (1)		
Equity securities	43 114	44 086
Local listed	41 649	43 068
Foreign listed	1 364	970
Unlisted	101	48
Debt securities	88 371	75 628
Stock and loans to government and other public bodies		
Local listed	38 582	30 050
Foreign listed	26	23
Unlisted	4 045	3 680
Other debt securities		
Local listed	19 771	18 923
Foreign listed	335	331
Unlisted	25 612	22 621
Funds on deposit and other money market instruments	11 741	12 188
Unit-linked investments (<i>refer to next table for further detail</i>)	130 321	137 554
Collective investment schemes		
Local unlisted or listed quoted	81 400	90 051
Foreign unlisted or listed quoted	37 475	36 402
Foreign unlisted unquoted	683	563
Other unit linked investments		
Local unlisted or listed quoted	3 081	3 524
Local unlisted unquoted	7 546	6 891
Foreign unlisted or listed quoted	-	-
Foreign unlisted unquoted	136	123
Investments in associates at fair value through income (1)	21 271	17 253
Derivative financial instruments	2 375	2 770
Held for trading	2 375	2 770
Held for hedging purposes	-	-
Interest in subsidiaries	70 593	68 273
Collective investment schemes	67 454	65 531
Subsidiary companies	3 139	2 742
Carried as available for sale		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Classes of assets and liabilities

	2019 Rm	2018 Rm
Financial assets carried at amortised cost		
Loans and receivables	7 343	6 132
Accounts receivable	875	609
Unsettled trades	801	273
Loans	5 667	5 250
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 600	2 683
Cash and cash equivalents	12 478	12 478
Other assets carried at fair value		
Owner-occupied properties	750	1 642
Investment properties	7 163	6 321
Non-current assets held for sale	622	-
Other assets not carried at fair value	5 298	5 111
Total assets	404 040	392 119

(1) For the prior year, this line item was classified as designated at fair value through income in terms of IAS 39 and has not been restated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

43 CAPITAL MANAGEMENT

43.1 Capital management objectives

The company's board has the ultimate responsibility for the efficient management of capital within the group. The Balance Sheet Management function is responsible for the day-to-day activities relating to capital management and to make timely, prudent recommendations to the relevant governance committee.

The key objective of the company's capital management programme focuses on optimising the capital structure and performance in order to create value within the business. This is underpinned by appropriate links to the company's risk appetite framework and governance processes whilst focussing on effective implementation and execution of the principles.

The two primary objectives of capital management are to optimise the capital structure and to optimise performance. Optimising the capital structure will ultimately result in the optimal cost of capital whilst optimising performance will ultimately lead to an optimal return on equity. When these activities are combined, capital management drives value creation within the company.

43.2 Capital management framework

The capital management framework rests on the following key principles:

- **Capital requirements and definition of capital:** The risks inherent in the business activities of the company drive the need to hold sufficient capital reserves to protect the business against the adverse impacts of unexpected risk events. This is the primary aim for holding capital on the balance sheet, but it is also used to provide support to the group in pursuit of its business strategy.

Within the company capital is measured and monitored on both an IFRS and regulatory basis. On an IFRS basis, capital is defined as the total equity plus subordinated debt. From a regulatory perspective, capital is defined as the total eligible own funds calculated per the Prudential Standards.

- **Own Funds and Solvency Capital Requirements:** The regulatory capital coverage is determined as the ratio of own funds to the solvency capital requirement (SCR). The calculation of the own funds and SCR are in accordance with the technical specifications of the Prudential Standards that are applicable to all local insurance entities.
- **Capital coverage:** The company specifies capital coverage ratios and ranges, which are defined under its risk appetite framework.
- **Capital allocation:** The company must be capitalised in excess of what its own covered business requires, and serve as a source of capital support to the wider group. In principle, subsidiaries are capitalised to ensure medium term regulatory solvency while additional capital is held centrally to support the long term regulatory solvency of the entities.
- **Investment of assets backing shareholder capital:** Shareholder capital portfolios are investible, financial assets that are in excess of the assets that are required to meet policyholder obligations and that are directly attributable to the company's shareholders. The company invests the assets backing its shareholder capital portfolios in line with its approved risk appetite and mandates.
- **Capital planning process:** The company capital planning process facilitates value creation by aligning corporate strategy, capital allocation and performance measurement. The company's capital planning process is conducted on a forward looking basis through regular solvency and liquidity projections that take into account capital sourcing requirements, strategic capital deployment and subsidiary capital requirements.
- **Dividends:** The company's dividend policy aims to grow dividends in line with Diluted Normalised Headline Earnings (NHE) growth.

The Group targets a NHEPS dividend cover of 2.5x within a range of 2x to 3x. This implies a pay-out ratio of c.40% to c.50% of diluted normalised headline earnings per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

43.3 Overview of capital management developments

43.3.1 Regulatory capital developments

The Financial Sector Regulation Act of 2017 became effective on 01 April 2018, introducing the Twin Peaks model of regulating financial institutions. The Twin Peaks model established the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB), and the Financial Sector Conduct Authority (FSCA). The new regulatory bodies effectively replaced the functions previously performed by the Financial Services Board (FSB). The prudential supervision of insurers was therefore effective from 01 April 2018, performed within the PA.

The Insurance Act took effect on 01 July 2018. The capital management information in this report now reflects the requirements of the new Prudential Standards.

43.3.2 Changes in capital structure

Subordinated debt raising

On 18 March 2019, Momentum Metropolitan Life Limited, a subsidiary of Momentum Metropolitan holdings, successfully listed a new subordinated debt instrument MMIG07 to the value of R750m. The issuance was to refinance the subordinated debt instrument MMIG01 that became callable on 17 March 2019.

43.3.3 Issuance of subordinated debt

The table below shows a summary of the company's subordinated unsecured callable notes in issue at 30 June 2019

Code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Interest rate
MMIG02	750	10.07%	7	Mar 2014	Fixed
MMIG03	750	3-month Jibar +2.30%	5.5	Dec 2014	Floating
MMIG04	270	11.30%	10	Aug 2015	Fixed
MMIG05	980	10.86%	7	Aug 2015	Fixed
MMIG06	750	3-month Jibar +2.20%	6	Oct 2017	Floating
MMIG07	750	3-month Jibar +1.75%	5.5	Mar 2019	Floating

The company believes that the current capital mix is adequate, but will continue to pursue strategies to optimise the capital mix under SAM.

43.7 Credit ratings

The company appointed Moody's in October 2015 to review its credit ratings following the deregistration of Fitch Southern Africa by the FSB in September 2015.

Moody's confirmed the credit ratings of the company in November 2018. Given the tough economic environment, the affirmation of the credit ratings can be viewed as positive for the company. The current credit ratings are therefore the same as what was reported in 2018.

	Type	Global scale	National scale	Outlook
MML	Insurer Financial Strength	Baa2	Aaa.za	Stable
MML	Issuer rating	Baa3	Aaa.za	Stable
Subordinated debt	N/A	Ba1	Aa2.za	Stable

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Moody's commented that "Momentum Metropolitan Life Limited's (previously MMI Group Limited's) Baa2 global scale, and Aaa.za national scale, Insurance Financial Strength (IFS) ratings reflect the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the group from stress related to credit pressures at the sovereign level. These strengths are partially offset by the group's exposure to South Africa, both in the form of its invested assets and revenues, which are susceptible to the pressure on the domestic economy, and challenges meeting profitability and strategic objectives in recent years."

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44 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.

2019	Insurance	Investment with DPF	Investment	Total
	Rm	Rm	Rm	Rm
Contracts with DPF	45 435	21 501	50	66 986
Individual contracts with DPF	31 519	5 588	-	37 107
Smoothed bonus	21 915	5 588	-	27 503
Conventional with-profit	9 604	-	-	9 604
Group contracts with DPF	13 916	15 913	50	29 879
Smoothed bonus	65	15 153	-	15 218
Smoothed bonus – fully vesting	-	722	-	722
With-profit annuity	13 851	38	50	13 939
Market-related business	15 401	178	226 057	241 636
Individual market-related business	15 412	178	151 339	166 929
Group market-related business	(11)	-	74 718	74 707
Other business	43 599	180	11 443	55 222
Non-profit annuity business	35 207	-	2 082	37 289
Guaranteed endowments	20	-	9 354	9 374
Structured products	-	-	-	-
Other non-profit business	8 372	180	7	8 559
Total contract holder liabilities	104 435	21 859	237 550	363 844

2018	Insurance	Investment with DPF	Investment	Total
	Rm	Rm	Rm	Rm
Contracts with DPF	40 413	22 409	47	62 869
Individual contracts with DPF	31 886	5 803	-	37 689
Smoothed bonus	22 734	5 803	-	28 537
Conventional with-profit	9 152	-	-	9 152
Group contracts with DPF	8 527	16 606	47	25 180
Smoothed bonus	-	15 806	-	15 806
Smoothed bonus – fully vesting	-	759	-	759
With-profit annuity	8 527	41	47	8 615
Market-related business	15 937	169	223 317	239 423
Individual market-related business	15 949	169	147 525	163 643
Group market-related business	(12)	-	75 792	75 780
Other business	41 659	174	12 413	54 246
Non-profit annuity business	33 037	-	2 035	35 072
Guaranteed endowments	24	-	10 371	10 395
Structured products	-	-	-	-
Other non-profit business	8 598	174	7	8 779
Total contract holder liabilities	98 009	22 752	235 777	356 538

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For the year ended 30 June 2019

44.1 Classes of insurance and investment business

The different classes of business are discussed below:

Contracts with DPF

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

The major classes of smoothed bonus business are:

- Metropolitan Retail individual smoothed bonus business (open to new business).
- Momentum Employee Benefits smoothed bonus business (open to new business).
- Momentum Employee Benefits with-profit annuity business (open to new business).
- Momentum Life 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 Life 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 Life and Investments 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.

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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 company holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the company 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 policyholders' expectations. These risks are managed through the rigorous investment research process applied by the company's investment managers, which is supported by technical as well as fundamental analysis.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.
- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

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

Financial instruments

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

Other non-profit business

- These are primarily insurance contracts of varying duration as well as inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the company is 11.45% (2018: 11.70%).
- The investment contract liability is primarily in respect of inflation-linked benefits, which are discounted using a real yield curve. The average real yield that produces the same result is 3.27% (2018: 2.83%) for the company.

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.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Investment guarantees on death and early termination are also provided and 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 guarantee are much less significant than the liabilities in respect of minimum guaranteed maturity values.
- 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 APN110 – 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.

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44.2 Insurance risk

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

Insurance risk management

The Head of the Actuarial Function (HAF) has a duty under the Insurance Act 2017 and its associated prudential guidelines to evaluate and provide advice to the board of directors and management on the financial soundness of the insurer, including the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the insurer's technical provisions and calculation of the insurer's capital requirements. The HAF reports on these matters to the board, audit committee and the Prudential Authority. The actuarial committee supports the HAF in his responsibility for the oversight of insurance risk. The actuarial committee has been appointed by the board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

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

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

The main insurance risks, as well as the company's approach to the management of these risks, are set out below.

44.2.1 Demographic risks

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

- Premium rates are required to be certified by the HAF as being actuarially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk from an 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.

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Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting demographic risks for individual insurance business:
 - The most significant factors that could substantially increase the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating), resulting in more or earlier claims.
 - Economic conditions can potentially affect retrenchment claims as well as morbidity claims where benefits are determined in terms of the ability to perform an occupation.
 - Medical advances can potentially affect the size and severity of medical claims (including critical illness claims).
 - Anti-selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
 - The effect of selective terminations which means policyholders are less likely to terminate voluntarily if the cover is more likely to be needed in the foreseeable future.
 - Concentration risk, which is the risk due to exposure to a large number of claims from a single event or to a particular geographical area.

Demographic risks are managed as follows:

- Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the company to adjust these charges so that on average they reflect actual mortality experience, reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures and client expectation management.
- To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown these are reliable indicators of the risk exposure.
- A guarantee period shorter than the policy term applies to most risk business, and enables the company 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 policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
- Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
- Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
- Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
- Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
- Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.
- Momentum Life and Investments typically retain 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.
- Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place for fully underwritten and limited underwriting products, but excludes funeral products which are not reinsured.
- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. The company's catastrophe reinsurance cover for the current financial year is R750 million (2018: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

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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)	2019			2018		
	Number of benefits	Amount (gross)	Amount (net)	Number of benefits	Amount (gross)	Amount (net)
		Rm	Rm		Rm	Rm
0 - 20 000	2 348 931	20 572	20 137	2 422 707	23 667	23 197
20 001 - 50 000	848 200	32 810	31 872	802 804	34 755	33 745
50 001 - 100 000	314 723	25 830	23 437	243 785	23 360	20 894
100 001 - 200 000	116 721	18 843	13 823	108 599	19 658	14 434
200 000 - 500 000	191 607	64 293	44 719	195 896	66 301	46 610
500 001 - 1 000 000	221 404	121 193	89 395	227 347	124 832	91 686
>1 000 000	469 103	994 523	556 028	461 298	949 042	527 132
	4 510 689	1 278 064	779 411	4 462 436	1 241 615	757 698

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
 - life insurance (mostly lump sum, but including some children and spouse's annuities);
 - disability insurance (lump sum and income protection);
 - dread disease cover;
 - continuation of insurance option.
- Factors affecting these risks and how they are managed:
 - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk exists.
 - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to limit anti-selection.
 - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
 - Region
 - Salary structure
 - Gender structure
 - Industry
 - For large schemes (typically 200 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
 - Rate reviews take into account known trends such as worsening experience due to AIDS.
 - To manage the risk of anti-selection, there is an 'actively at work' clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the company 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, for example a very high free cover limit or high benefit levels.

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- 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	2019	2018
0 - 1 000	7 505	7 535
1 001 - 5 000	223	220
>5 000	119	97

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks
 - increased longevity due to medical advances and improvement in social conditions
 - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
 - 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:

Annuity amount per annum (Rands)	2019		2018	
	Number of annuitants	Total amount per annum	Number of annuitants	Total amount per annum
		Rm		Rm
0 - 10 000	66 966	292	70 407	305
10 001 - 50 000	44 082	1 036	43 605	1 008
50 001 - 100 000	11 236	786	11 199	780
100 001 - 200 000	6 272	865	5 914	813
>200 000	3 983	1 512	3 497	1 308
	132 539		134 622	

Permanent health insurance business

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

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44.2.2 Contract persistency risk

- Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, any amount payable on withdrawal normally makes provision for recouping outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which 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, e.g. contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits. Also, for these types of policies, the risk at later durations is that terminations are less than assumed when pricing and valuing policies because upfront costs have largely been recouped and a termination at that stage releases a liability.

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 company's actual experience, capital is set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, programmes 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 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.

44.2.3 Expense risk

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

The company 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 certain books that are closed to new business.

44.2.4 Business volume risk

There is a risk that the company 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 are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes, but this will happen over a period of time. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are used to distribute a range of product lines within the company.

44.2.5 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance contracts, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. The company 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 the company has a risk seeking attitude. When writing retrenchment risk, the company carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

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

The company classifies a number of collective investment schemes and fund of alternative funds as subsidiaries as a result of exercising control over these schemes, and the company 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's 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 the table in note 42.1 as collective investment schemes and investments in associates at fair value through income.

46 LIQUIDITY RISK

Liquidity risk governance

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

The Capital and Investment Committee is responsible for the company's liquidity and funding risk management with the Board Risk Capital and Compliance committee providing oversight for funding and liquidity risk assumed in the company's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities and shareholder portfolios.

Liquidity risk management

The principal risk relating to liquidity comprises the company's exposure to policyholder behaviour, e.g. unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 93% (2018: 94%) of the liabilities of the company. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed endowment and structured product benefits

Guaranteed endowments and structured products 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.

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Non-profit annuity 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 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.

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the market value of underlying assets. On maturity 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 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 (i.e. a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the company'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 shrinking (i.e. 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 company 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

The liquidity risk arising from the liabilities in respect of embedded investment guarantees is managed by backing these liabilities with sufficiently liquid financial instruments.

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liquidity risk 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 takes into account the relevant liquidity requirements. Examples of such contractual provision include the payment of benefits in specie, or a provision for sufficient lag times between the termination notification and the payment of benefits.

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

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For the year ended 30 June 2019

Shareholder funds

The significant shareholder liabilities of the company are the carry positions and the subordinated call notes.

The company 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 shareholders funds are invested in a diversified portfolio of liquid cash, floating rate instruments and listed equity instruments.

The investment mandate and guidelines that govern the investment of shareholders funds restrict exposure to high quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the Capital and Investment Committee. The regular reports take the expected shareholder cash flows (e.g. 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 company's assets are fairly liquid in order to meet the liquidity needs of obligations if the company should be required to settle earlier than expected:

Financial asset liquidity

	2019		2018	
	%	Rm	%	Rm
High (1)	78%	316 944	79%	307 842
Medium (2)	19%	75 394	19%	73 075
Low/illiquid (3)	3%	10 614	2%	10 769
Other assets not included above				
- non-current assets held for sale		622		-
- employee benefit asset		466		433
Total assets		404 040		392 119

(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).

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Maturity profile of liabilities

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

2019 Rm	Carrying amount	Total	Open- ended (1)	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows) (2)	104 435	104 435	17 104	11 650	24 930	20 630	30 121
Linked (market-related) business							
Individual	15 432	15 432	1 234	1 688	3 419	3 598	5 493
Employee benefits	(11)	(12)	-	(1)	(5)	(6)	-
Smoothed bonus business							
Individual	21 915	21 915	695	2 837	6 240	5 403	6 740
Employee benefits	65	65	65	-	-	-	-
Conventional with-profit business	9 604	9 605	5 638	372	496	210	2 889
Non-profit business							
Individual	5 783	5 784	1 409	493	817	612	2 453
Employee benefits	2 589	2 589	204	1 268	400	231	486
Annuity business	49 058	49 057	7 859	4 993	13 563	10 582	12 060
Investment contracts with DPF (discounted cash flows) (2)	21 859	21 859	17 766	634	1 542	869	1 048
Linked (market-related) business							
Individual	178	178	6	17	73	39	43
Smoothed bonus business							
Individual	5 588	5 587	1 666	617	1 469	830	1 005
Employee benefits	15 874	15 875	15 875	-	-	-	-
Non-profit business							
Individual	1	1	1	-	-	-	-
Employee benefits	180	180	180	-	-	-	-
Annuity business	38	38	38	-	-	-	-
Investment contracts (undiscounted cash flows)	237 550	237 811	117 328	6 980	16 558	12 725	84 220
Linked (market-related) business							
Individual	151 332	149 636	43 818	4 520	5 598	12 608	83 092
Employee benefits	74 718	74 719	73 302	16	75	125	1 201
Non-profit business							
Individual	9 367	11 023	157	1 726	9 139	1	-
Annuity business	2 133	2 433	51	718	1 746	(9)	(73)
Total policyholder liabilities under insurance and investment contracts	363 844	364 105	152 198	19 264	43 030	34 224	115 389
Financial liabilities at fair value through income	10 007	11 275	-	6 738	3 453	1 084	-
Subordinated call notes	4 431	5 699	-	1 162	3 453	1 084	-
Carry positions	5 576	5 576	-	5 576	-	-	-
Derivative financial instruments (3)	2 219						
Other payables at amortised cost (4)	9 255	9 255	-	9 255	-	-	-
Other liabilities (5)	3 404						
Total liabilities	388 729	384 635	152 198	35 257	46 483	35 308	115 389

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Notes to the maturity profile of liabilities table:

- (1) Open ended liabilities are defined as:
 - policies where the policyholder is entitled to their benefit at any future point (benefits are contractually available on demand), or
 - where policies do not have a specified contract term.
- (2) The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted, expected cash flows. All other values are based on contractual undiscounted cash flows.
- (3) Cash flows for derivative financial instruments have been disclosed on a net basis below.
- (4) Other payables exclude premiums paid in advance and deferred revenue liabilities.
- (5) Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies. 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, i.e. 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 at fair value

- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by the company. 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.

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2018 Rm	Carrying amount	Total	Open ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)	98 009	98 009	14 666	11 836	22 640	18 076	30 791
Linked (market-related) business							
Individual	15 973	15 973	1 111	1 349	3 888	3 549	6 076
Employee benefits	(12)	(12)	-	(1)	(5)	(6)	-
Smoothed bonus business							
Individual	22 734	22 735	923	2 987	6 659	5 320	6 846
Conventional with-profit business	9 094	9 093	3 211	600	1 001	693	3 588
Non-profit business							
Individual	6 099	6 098	1 878	(148)	98	44	4 226
Employee benefits	2 499	2 500	145	1 455	312	184	404
Annuity business	41 622	41 622	7 398	5 594	10 687	8 292	9 651
Investment contracts with DPF (discounted cash flows)	22 752	22 752	18 302	690	1 861	1 032	867
Linked (market-related) business							
Individual	169	169	-	16	69	41	43
Smoothed bonus business							
Individual	5 803	5 804	1 523	674	1 792	991	824
Employee benefits	16 565	16 564	16 564	-	-	-	-
Non-profit business							
Individual	21	21	21	-	-	-	-
Employee benefits	153	153	153	-	-	-	-
Annuity business	41	41	41	-	-	-	-
Investment contracts (undiscounted cash flows)	235 777	237 853	118 339	7 200	16 401	11 932	83 981
Linked (market-related) business							
Individual	147 532	147 469	43 549	3 858	5 373	11 784	82 905
Employee benefits	75 792	75 793	74 404	16	73	123	1 177
Non-profit business							
Individual	10 371	12 285	337	2 620	9 327	1	-
Annuity business	2 082	2 306	49	706	1 628	24	(101)
Total policyholder liabilities under insurance and investment contracts	356 538	358 614	151 307	19 726	40 902	31 040	115 639
Financial liabilities designated at fair value through income	8 347	9 765	-	5 124	3 503	1 138	-
Subordinated call notes	4 374	5 792	-	1 151	3 503	1 138	-
Carry positions	3 973	3 973	-	3 973	-	-	-
Derivative financial instruments	2 013	-	-	-	-	-	-
Other payables at amortised cost	8 466	8 467	-	8 467	-	-	-
Other liabilities	2 598	-	-	-	-	-	-
Total liabilities	377 962	376 846	151 307	33 317	44 405	32 178	115 639

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Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the 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 company's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

2019 Rm	Carrying amount	Total	0 to 1 year	1 to 5 years	> 5years
Derivatives held for trading					
Equity derivatives	(4)	(13)	-	(13)	-
Interest rate derivatives	852	286	17	1 748	(1 479)
Bond derivatives	46	16 686	-	(3 839)	20 525
Credit derivatives	12	-	-	-	-
Currency derivatives	(750)	(539)	74	(269)	(344)
Total net undiscounted cash flow projections	156	16 420	91	(2 373)	18 702

Derivative financial instruments

Assets	2 375
Liabilities	(2 219)
	<u>156</u>

2018 Rm	Carrying amount	Total	0 to 1 year	1 to 5 years	> 5years
Derivatives held for trading					
Equity derivatives	(16)	(21)	(21)	-	-
Interest rate derivatives	1 719	1 327	690	1 903	(1 266)
Bond derivatives	(91)	12 385	(3 377)	1 219	14 543
Credit derivatives	1	-	-	-	-
Currency derivatives	(856)	(653)	(52)	(163)	(438)
Total net undiscounted cash flow projections	757	13 038	(2 760)	2 959	12 839

Derivative financial instruments

Assets	2 770
Liabilities	(2 013)
	<u>757</u>

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47 MARKET RISK

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

Financial instruments held by the company are subject to the components of market risk as follows, with two check marks indicating high exposure and one check mark indicating medium or low exposure to the applicable risk:

	Carrying amount		Market price risk	Interest rate risk	Currency risk
	2019 Rm	2018 Rm			
Assets					
Carried at fair value through income					
Equity securities	43 114	44 086	✓ ✓	✓	✓
Debt securities	88 371	75 628	✓	✓ ✓	✓
Funds on deposit and other money market instruments	11 741	12 188	✓	✓ ✓	✓
Unit-linked investments	130 321	137 554	✓ ✓	✓	✓
Investments in associates	21 271	17 253	✓ ✓	✓	✓
Derivative financial instruments					
Held for trading	2 375	2 770	✓ ✓	✓	✓
Interest in subsidiary companies	70 593	65 938			✓
Carried at amortised cost					
Loans and receivables					
Accounts receivable	875	609		✓	✓
Unsettled trades	801	273			✓
Loans	5 667	5 250		✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 600	2 683		✓	✓
Cash and cash equivalents	12 478	12 478		✓	✓
Non-current assets held for sale	622	-		✓ ✓	
Other assets	13 211	15 409	n/a	n/a	n/a
Total assets	404 040	392 119			

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For the year ended 30 June 2019

	Carrying amount		Market price risk	Interest rate risk	Currency risk
	2019 Rm	2018 Rm			
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	237 550	235 777	✓ ✓	✓ ✓	✓
At fair value through income					
Subordinated call notes	4 431	4 374		✓	
Carry positions	5 576	3 973	✓	✓ ✓	
Derivative financial instruments					
Held for trading	2 219	2 013	✓ ✓	✓	✓
Carried at amortised cost					
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	4 239	4 042			✓
Payables arising from investment contracts	1 079	981			✓
Unsettled trades	640	265			
Other payables at amortised cost	4 208	4 103			✓
Insurance contract liabilities	104 435	98 009	n/a	n/a	n/a
Investment contracts with DPF	21 859	22 752	✓ ✓	✓ ✓	✓ ✓
Other non-financial liabilities	2 493	1 673	n/a	n/a	n/a
Total liabilities	388 729	377 962			

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

- the policyholder carries majority of the market risk; while
- the company carries the 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 policyholders' expectations.

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

Market risk governance

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

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

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

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

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Market risk management per product

Individual and group contracts with DPF

Assets are invested in line with specified mandates in equities (local and, for some funds, offshore), fixed-interest assets, property and cash, according to the asset manager's best investment view. Divisional Policyholder Investment Committees regularly monitor the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for each product.

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

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the company 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.
- short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- 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.
- 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 contracts offering investment guarantees

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

The risk of being unable to meet guarantees is managed by holding a specific liability for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance. A stochastic model is used to quantify the reserve required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The model is calibrated to market data and the liability is calculated every six months. Statutory capital is held in respect of the guarantee risk. The amount of capital is calculated to be sufficient to cover the cost of guarantees in line with SAP 104 guidance. The shareholder exposure is also hedged to the extent possible, subject to available instruments and the overall risk profile of the business.

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Individual and group contracts with DPF and continuous guarantees

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

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

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 company 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 company's investment managers, which is supported by technical as well as fundamental analysis.

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 company invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps with approximately the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The portfolio aims to minimise both of these risks. Index linked annuities, which provide increases in line with inflation, are generally matched with index linked bonds or bank-issued matching structures. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R3.6 million (2018: R3.4 million) for the company.

The calculation for the company is based on the risk free yield curve. The average rate that produces the same result is 16.3% (2018: 17.8%).

Guaranteed endowments and structured products

The company 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 interest rate exposure on these policies is hedged through appropriate interest sensitive instruments.

A variation on guaranteed endowment policies is 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 including 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 company's reinsurance policies.

Shareholder cash flows in respect of individual contracts with investment components

The expected future charges, expense outgo and risk benefit payments (including margins) on individual contracts with investment components are capitalised using a long-term interest rate. The resultant discounted value is added to liabilities (an offset to liabilities when negative). The company is therefore subject to interest rate risk as any changes in long-term interest rates will result in a change in the value of liabilities. This risk is mitigated through hedging as well as diversification against other interest rate risks.

Other non-profit business

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be different to that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through appropriate interest rate instruments as well as contractual rights to review regular premium rates charged to clients.

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47.1 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 company 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 access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk;
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating the company's asset manager and specialist alternative investment boutique to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the company's Private Equity Investments Committee, represented by specialist investment professionals and independent company representatives;
- To mitigate the risk of potential subjective valuation due to the nature of unlisted investments, the South African Venture and Private Equity Association (SAVCA) has developed a set of guidelines intended to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practise exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to the sensitivity analysis in note 47.5.

47.2 Interest rate risk

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

Exposure of financial instruments to interest rates

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

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Instrument class	Carrying amount	Cash flow interest rate risk	Fair value interest rate risk	No interest rate risk	Weighted average rate
2019	Rm	Rm	Rm	Rm	%
At fair value through income					
Debt securities	88 371	27 825	55 546	5 000	7.0
Funds on deposit and other money market instruments	11 741	8 921	2 817	3	8.0
Derivative financial assets	2 375	-	2 375	-	n/a
Derivative financial liabilities	(2 219)	-	(2 219)	-	n/a
Amortised cost					
Cash and cash equivalents	12 478	12 087	232	159	10.0
Loans and receivables	7 343	1 053	-	6 290	11.0
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 600	-	-	2 600	0.0
	122 689	49 886	58 751	14 052	

Instrument class	Carrying amount	Cash flow interest rate risk	Fair value interest rate risk	No interest rate risk	Weighted average rate
2018	Rm	Rm	Rm	Rm	%
Designated at fair value through income					
Debt securities	75 628	26 055	47 467	2 106	7.0
Funds on deposit and other money market instruments	12 188	10 022	2 156	10	8.0
Derivative financial assets	2 770	-	2 770	-	n/a
Derivative financial liabilities	(2 013)	-	(2 013)	-	n/a
Cash and cash equivalents	12 478	11 044	620	814	10.0
Loans and receivables	6 132	996	-	5 136	11.0
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 683	-	-	2 683	0.0
	109 866	48 117	51 000	10 749	

Derivative instrument exposure to interest rates is reflected in note 6.3.

47.3 Currency risk

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

The majority of the company'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 represent significant currency risk for the company. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The assets in the table below generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

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The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with the company, are included in the company's statement of financial position at 30 June:

	Africa	UK	US	Euro	Asian Pacific	Other	Total
2019	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<i>Closing exchange rate</i>		17.9473	14.1084	16.0651			
Investment securities							
At fair value through income							
Equity securities	-	112	688	80	17	43	940
Debt securities	-	21	1 600	-	-	-	1 621
Unit-linked investments	-	4 086	26 117	324	17	34	30 578
Interest in subsidiaries	26	349	-	-	-	-	375
Interest in associates	-	10	4 628	-	-	-	4 638
Derivative financial instruments	-	-	1	-	-	-	1
Amortised cost							
Cash and cash equivalents	-	67	1 349	35	1	3	1 455
	26	4 645	34 383	439	35	80	39 608
Other financial liabilities	-	-	825	-	-	-	825
	-	-	825	-	-	-	825
2018	Africa	UK	US	Euro	Asian Pacific	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<i>Closing exchange rate</i>		18.1159	13.7088	16.0000			
Investment securities							
Designated at fair value through income							
Equity securities	-	151	684	69	5	47	956
Debt securities	-	12	1 691	418	-	-	2 121
Unit-linked investments	-	1 687	27 334	568	5	29	29 623
Interest in subsidiaries	26	354	14 701	184	-	-	15 265
Interest in associates	-	21	4 860	-	-	-	4 881
Loans and receivables	-	-	89	-	-	-	89
Cash and cash equivalents	-	106	714	54	1	34	909
	26	2 331	50 073	1 293	11	110	53 844
Other financial liabilities	-	-	855	-	-	-	855
	-	-	855	-	-	-	855

African exchange rates representing material balances above are:

<i>Closing exchange rate</i>	Botswana	Ghana	Kenya	Nigeria
2019	1.3290	2.5818	0.1382	0.0392
2018	1.3135	2.8498	0.1358	0.0379

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For the year ended 30 June 2019

47.4 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 company's exposure to property holdings at 30 June is as follows:

	2019 Rm	2018 Rm
Investment properties	7 163	6 321
Owner-occupied properties	750	1 642
Collective investment schemes > 55% property exposure	10 628	7 798
	18 541	15 761
Percentage of total assets	4.6%	4.0%

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

The company 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 2019. The carrying amount of unlet and vacant investment property as at 30 June 2019 was Rnil million (2018: R682.3 million).

47.5 Sensitivity to market risk

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in equity prices and interest rates are the market risk elements with the most significant effect on earnings and equity. The table below provides the sensitivity to a change in equity prices by 10% and a change to interest rates by 100 basis points:

	Equity prices		Interest rates	
	Increase by 10 % Rm	Decrease by 10 % Rm	Increase by 100 bps Rm	Decrease by 100 bps Rm
2019				
Increase/(decrease) in earnings per income statement	89	(90)	48	(52)
Increase/(decrease) in equity	476	(394)	(214)	106
2018				
Increase/(decrease) in earnings per income statement	119	(127)	(65)	(238)
Increase/(decrease) in equity	599	(642)	(30)	15

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a twelve month period from the reporting date.
- Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are by nature not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable, but no changes are made to the prospective assumptions used in the measurement of contract holder liabilities.

NOTES TO THE FINANCIAL STATEMENTS

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- In line with the company's current practice and accounting policy, the investment variances from insurance contracts were stabilised. As at 30 June 2019, the company's investment stabilisation reserve had a balance of R713 million (2018:R611 million).
- 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 derivative and other structures are implemented to reduce equity and interest rate risk on shareholder exposures. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

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

Currency sensitivity

The impact of changes in currency on earnings and equity for the company is not considered to be material. Refer to note 47.3 for more details on the company's currency exposure.

48 CREDIT RISK

This is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment and non- investment activities, such as reinsurance credit risk, unsecured lending, amounts due from intermediaries and policy loans.

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, 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.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive balance sheet management committee (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 MMH group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

The Executive BSM is a sub-committee of the executive committee. This committee reports to the company's executive committee on the effectiveness of credit risk management and provides an overview of the company's shareholders' credit portfolio. The Executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the company 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 a Balance Sheet Management Committee of the Board ("Board BSM Committee").

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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 company's credit risk appetite.

The approval framework for new credits consists of two committees, namely an Executive Credit Committee and the BSM Credit Committee. The BSM Credit Committee consists of senior credit executives and independent senior management executives. The Executive Credit Committee consists of Group Executive Committee members and senior management executives. The Executive Credit Committee approves credits in excess of the mandate and limits of the BSM Credit Committee.

The following are taken into account in the approval process:

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

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

- 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.

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 balance sheet management 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 company is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit linked investments in which the company invests. The company's exposure to these funds is classified at fund level (refer to note 42.1 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 unit trusts as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The company 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 setoff with the same counterparty, resulting in only the net exposure being included in the overall company counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the company's credit risk exposure policy. For OTC interest rate swaps, the company 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.

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Scrip lending

The company is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. Collateral or credit capital (as is applicable) is maintained at a risk-adjusted level of at least 100% of scrip lent. In general, the lender retains the risk and reward of securities lent. The lender fully participates in the market movement of the investment.

Historically, the company monitored collateral levels on a monthly basis and the status of collateral coverage was reported to the executive balance sheet management committee on a quarterly basis. This collateral served as security for the scrip lending arrangements in the event of default by the borrowers.

Loans and receivables

Due from agents, brokers and intermediaries

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

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

Policy loans

The company'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 company. In terms of the regulations applicable to the company, 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 company owns.

Reinsurance

The company only enters into reinsurance treaties with reinsurers registered with the Financial Services Board. 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 company remains liable for the payment to the contract holder.

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

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

Credit risk exposure

For the company's maximum exposure to credit risk, refer to note 10.

Financial assets and liabilities designated at fair value through income

The current year and cumulative fair value movements on instruments that would have otherwise been classified as at amortised cost or fair value through other comprehensive income under IFRS 9 (2018: loans and receivables or payables under IAS 39), but which have been designated at fair value through income, were due to market movements in the current year.

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 company's credit risk exposure policy described in this note.

Linked notes

The company has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested for when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying amount of these investments included in other debt securities at fair value through income was R437 million at 30 June 2019 (2018: R462 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Transfers of financial assets

The company is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements (refer note 17). 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.

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 R982 million (2018: R1 086 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables

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

ANNEXURE A

At 30 June the following collective investment schemes (CIS) were subsidiaries of the company:

	Carrying amount	
	2019 Rm	2018 Rm
ALUWANI Top 25 Fund	-	129
Chrysalis Enhanced Yield Credit Fund	150	105
Fairtree Inductance Long Credit Fund_130040 (FILCFM)	97	-
FGAM Global Cautious Fund IC Ltd, Reinvesting	188	174
Fintax International Balanced Fund IC Ltd, Accumulating	294	275
Fintax International Growth Fund IC Ltd, Accumulating	119	121
Momentum - Global Balanced Fund IC Limited Class B	-	218
Momentum Bond Fund	4 051	2 874
Momentum Capped SWIX Index Fund	1 776	-
Momentum Corporate High Interest Fund	1	1
Momentum Corporate Money Market Fund	-	1
Momentum Defensive Growth Fund	179	163
Momentum Diversified Income Fund	770	633
Momentum Enhanced Cautious Growth Fund of Funds	304	324
Momentum Enhanced Diversified Growth Fund of Funds	924	1 021
Momentum Enhanced Growth Fund of Funds	4 830	4 852
Momentum Enhanced Growth Plus Fund of Funds	1 432	1 361
Momentum Enhanced Stable Growth Fund of Funds	458	500
Momentum Flexible Income Fund	1	-
Momentum Global Balanced Fund IC Limited Class B, Accumulating	200	-
Momentum IF EUR Money Market	-	184
Momentum IF Global Fixed Income	681	697
Momentum IF USD Money Market	-	244
Momentum Income Plus Fund	2 466	1 084
Momentum International Balanced Fund of Funds	150	-
Momentum MF Global Aggressive	5 657	6 205
Momentum MF Global Balanced	4 324	5 035
Momentum MF Global Moderate	333	584
Momentum MF International Equity	568	722
Momentum Mid & Small Cap Index Fund	-	30
Momentum Mom Active Bond Fund	316	344
Momentum MoM Emerging Manager Growth Fund	1 634	1 883
Momentum MoM High Growth Fund	1 611	1 482
Momentum MoM Macro Growth Fund	82	87
Momentum MoM Macro Value Fund	1 903	2 078
Momentum MoM Managed Bond Fund	227	208
Momentum MoM Money Market Fund	-	227
Momentum MOM Opportunistic Equity Fund	1 386	1 442
Momentum MoM Property Equity Fund	2 360	2 046
Momentum MoM Real Return Fund	580	1 152
Momentum MOM Specialist Equity Fund	3 276	3 846
Momentum MoM Ultra Long Term Value Fund	2 216	2 880

ANNEXURE A

(continued)

	Carrying amount	
	2019 Rm	2018 Rm
Momentum Money Market Fund	5 689	4 187
Momentum Optimal Yield Fund	219	204
Momentum Private Equity 2008 Feeder	329	428
Momentum RCIS ZAR Diversified QI Fund of Hedge Funds	615	-
Momentum RCIS Multi-Managed ZAR Equity Hedge QI Hedge Fund	688	-
Momentum RCIS Multi Managed ZAR Capi Alpha QI Hedge Fund	855	-
Momentum Real Growth Core Equity Fund	-	280
Momentum Real Growth Equity Fund	1 501	1 694
Momentum Real Growth Property Fund	1 224	1 334
Momentum Real Growth Property Index Fund	318	168
Momentum Rubix QI	841	-
Momentum SA Defensive Growth Fund	4 569	5 953
Momentum SA Flexible Fixed Interest Fund	1 461	748
Momentum SA Real Growth Property Fund	867	771
Momentum Small/Mid-Cap Fund	75	96
Momentum Target Cautious Growth Fund of Funds	11	4
Momentum Target Diversified Growth Fund of Funds	29	23
Momentum Target Growth Fund of Funds	-	90
Momentum Target Growth Plus Fund of Funds	27	20
Momentum Target Stable Growth Fund of Funds	22	18
Momentum Trending Equity Fund	1 756	1 775
Momentum Value Equity Fund	714	2 526
PMK Managed Prescient Fund of Fund	100	-
Total investment in CIS subsidiaries	67 454	65 531

ANNEXURE B

At 30 June the following collective investment schemes were associates of the company:

	Carrying amount	
	2019 Rm	2018 Rm
Aluwani Africa Equity Fund	6	12
ALUWANI Top 25 Fund	117	-
Ampersand Momentum CPI Plus 6% Fund of Funds	203	142
Ampersand SCI CPI Plus 2% Fund of Funds	880	777
Ampersand SCI CPI Plus 4% Fund of Funds	494	705
Ampersand SCI Income Fund	249	-
API BCI Worldwide Opportunities Fund of Funds	-	33
AS BCI Forum Moderate Fund of Funds	-	175
Ashburton Growth Fund	188	235
ASO CAPITAL ASSET	86	-
Bateleur Equity Prescient Fund	156	209
Bovest BCI Conservative Fund of Funds	40	35
Bovest BCI Managed Fund of Funds	113	124
Brenthurst Global Balanced A Fund IC Ltd USD	41	46
Brenthurst Global Equity Fund IC Ltd USD, Accumulating	32	-
Cadiz Equity Fund	42	-
Cadiz Equity Ladder Fund	46	49
Cadiz Mastermind Fund	-	15
Caleo BCI Balanced Fund of Funds	62	61
Caleo Global Flexible Fund IC Limited (A)	179	194
Capita BCI Balanced Fund	50	48
Capita BCI Cautious Fund	124	126
Capstone BCI Balanced Fund	50	58
Celerity Ci Conservative Fund	75	-
Celerity Ci Moderate Fund	84	-
Contego B3 MET Protected Balanced Fund	67	14
Contego B5 MET Protected Equity Fund	-	57
CoreShares MSCI ACWI FoF	205	-
Credo Global Equity Fund IC Ltd A GBP, Accumulating	-	3
Dotport BCI Flexible Fund of Funds	86	92
Element Islamic Equity SCI Fund	79	-
ENGELBERG IP BALANCED FUND	35	25
Fairtree Flexible Balanced Prescient Fund	10	15
FG IP International Flexible Fund of Funds	234	232
FG IP Jupiter Income Fund of Funds	403	-
FGAM Global Growth Fund IC Ltd, Reinvesting	269	252
Financial Fitness Balanced IP FOF	-	148
Financial Fitness Stable IP FOF	-	84
Flagship International Flexible Fund IC Ltd Class A USD, Accumulating	110	133
Granate SCI Unconstrained Fixed Interest Fund	146	152
GTC Flexible Fund	-	63
Huysamer Opportunity Prescient Fund	2	2
Imara BCI Balanced Fund	-	5

ANNEXURE B

(continued)

	Carrying amount	
	2019 Rm	2018 Rm
Intergral BCI Equity Fund	63	75
Investhouse Ci Balanced Fund	109	88
Investhouse Ci Cautious Fund	47	47
Median BCI Balanced Fund of Funds	37	49
MET Worldwide Opportunities fund of fund	78	87
MI-PLAN IP Beta Equity Fund	-	8
Momentum - Global Cautious Fund IC Ltd Class A	35	59
Momentum - Global Growth Fund IC Ltd Class A	64	83
Momentum - Global Managed Fund IC Ltd Class A	73	91
Momentum - Sterling Balanced Fund IC Limited Class B	10	18
Momentum Capped SWIX Index Fund	-	17
Momentum Enhanced Yield Fund (A)	1 546	1 114
Momentum Financials Fund	53	54
Momentum IF Global Emerging Markets Equity	162	167
Momentum IF Global Equity	3 583	3 761
Momentum Industrial Fund	14	4
Momentum Inflation Linked Bond Portfolio	43	62
Momentum International Balanced Fund of Funds	-	65
Momentum International Conservative Feeder Funds	19	22
Momentum International Equity Feeder Fund	375	386
Momentum International Income Fund	21	16
Momentum Mid & Small Cap Index Fund	25	-
Momentum Real Estate Asset	76	-
Momentum Real Growth Core Equity Fund	165	-
Momentum Resources Fund	12	9
Momentum Target Growth Fund of Funds	31	-
Momentum Top 40 Index Fund (A)	53	85
Multi Asset IP Balanced Defensive Fund	47	47
Nedgroup Investments XS Diversified FoF	2 157	-
Novare Managed Growth Fund	1	-
OASIS BALANCED STABLE FUND OF FUNDS	52	47
OLD_AS Forum MET Aggressive Fund of Funds	250	255
OLD_Dotport MET Prudential Fund of Funds	151	167
OLD_Montrose MET Moderate Fund of Funds	-	58
PB Global Flexible Fund IC Limited	36	-
Platinum BCI Balanced Prudential Fund of Fund	362	357
Platinum BCI Income Provider Fund of Funds	133	125
PMK Balanced Prescient Fund of Fund	478	-
PMK Global Flexible Prescient Fund of Fund	103	-
PMK Stable Prescient Fund of Fund	92	-
PMK Worldwide Growth Prescient Fund of Fund	253	-
Prescient Equity Fund	37	-
Prescient Equity Active Quant Fund	-	-
Prescient Private Clients Managed Fund	34	23
Prime Balanced Income Fund of Funds	119	110

ANNEXURE B

(continued)

	Carrying value	
	2019	2018
	Rm	Rm
Prime Cabernet Stable Fund of Funds	262	289
Prime Classic Port Conservative FoF	-	53
Prime Optimal Balanced Fund of Funds	47	60
PSG Mutual Fund ICC Limited Global Equity Sub-Fund USD	1	1
PSG Mutual Fund ICC Limited Global Flexible Fund IC Limited Class A	3	9
Quantum BCI Worldwide Flexible Fund of Funds	20	15
Quattro Ci Cautious Fund of Funds	10	-
Quattro Ci Growth Fund of Funds	190	184
Quattro Ci Moderate Fund of Funds	51	52
Quattro Ci Worldwide Flexible Fund of Funds	-	10
Rebalance BCI Inflation Plus 3 Fund	127	132
Rebalance BCI Inflation Plus 5 Fund	121	146
Rebalance BCI Inflation Plus 7 Fund	30	34
Red Oak BCI Worldwide Flexible Fund of Funds	-	11
Renaissance Global Best Ideas Fund IC Limited D GBP, Accumulating	16	31
SA Asset Management BCI Managed Fund	94	93
SA Asset Management BCI Moderate Fund	72	89
Sasfin BCI Equity Fund	39	100
Select Manager BCI Flexible Growth Fund of Funds	-	160
Select Manager BCI Prudential Fund of Funds	229	-
Signature BCI Balanced Fund Of Funds	51	49
Signature BCI Stable Fund Of Funds	36	37
STANLIB Africa Equity Fund	8	10
Stelburg BCI Balanced Fund of Funds	79	79
Stelburg BCI Cautious Fund of Funds	31	29
Stewart BCI Absolute Return Fund of Funds	31	38
Stewart BCI Macro Equity Fund of Funds	125	126
Synergy Ci Moderate FOF	70	-
True North IP Enhanced Property Fund	75	40
True North IP Flexible Equity Fund	33	69
Truffle SCI Institutional Equity Fund	1 994	2 155
UAM BCI Balanced Fund	12	-
VFPF International Cautious Fund IC Ltd Class B, Accumulating	8	6
VFPF International Growth Fund IC Ltd Class B, Accumulating	19	26
Warwick BCI Balanced Fund	113	193
Warwick BCI Balanced Fund of Funds	-	42
Warwick BCI Enhanced Income Fund	384	342
Warwick BCI Equity Fund	56	-
Warwick BCI International Fund of Funds	538	298
Warwick BCI Property Fund	73	115
Wealth Associates BCI Balanced Fund of Funds	164	152
Wealthworks BCI Cautious Fund of Funds	30	31
Wealthworks BCI Managed Fund of Funds	67	70
Total investment in CIS associates	21 271	17 253

ANNEXURE C

Directors Remuneration paid by the company or other group companies within the Momentum Metropolitan Holdings group

Companies Act (Section 30 (4) - (6))

2019

Remuneration	Salary	Performance bonus	Retention payments	Long-term incentive payments	Expense allowance	Medical aid	Pension fund	Contractual payment	Total remuneration	Value of shares granted	Fees	Ad-hoc fees	Total Fees	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	
Executive directors														
HP Meyer	7 033	1 050	-	-	-	-	-	-	8 083	11 406				
J Cilliers (Marais)	3 820	675	-	-	-	51	212	-	4 758	6 587				
RS Ketola	3 447	1 925	-	-	-	141	278	-	5 791	7 911				
	14 300	3 650	-	-	-	192	490	-	18 632	25 904				
Non-executive directors														
MJN Njeke (Chairman)											2 197	-	2 197	
F Jakoet											994	-	994	
FJC Truter											2 223	-	2 223	
SC Jurisich											1 595	-	1 595	
L von Zeuner											1 447	-	1 447	Resigned 28 February 2019
LM Chiume											366	-	366	Appointed 1 March 2019
MS Moloko											280	-	280	Appointed 1 March 2019
SL Mc Pherson											248	-	248	Appointed 1 March 2019
KS Legoabe-Kgomari											-	-	-	Appointed 14 June 2019
											9 350	-	9 350	

2018

Remuneration	Salary	Performance bonus	Retention payments	Long-term incentive payments	Expense allowance	Medical aid	Pension fund	Contractual payment	Total remuneration	Value of shares granted	Fees	Ad-hoc fees	Total Fees
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive directors													
HP Meyer	2 600	-	-	-	-	-	-	-	2 600				
NAS Kruger ¹	3 981	-	3 500	10 616	1	206	355	9 292	27 951				Appointed 16 February 2018
J Cilliers (Marais) ²	1 235	-	-	-	-	16	83	7 500	8 834				Resigned 15 February 2018
RS Ketola	1 627	-	-	-	-	73	129	-	1 829				Appointed 1 March 2018
M Vilakazi ³	2 963	-	-	4 391	-	58	520	-	7 932				Resigned 31 March 2018
	12 406	-	3 500	15 007	1	353	1 087	16 792	49 146				
Non-executive directors													
MJN Njeke (Chairman)											1 982	-	1 982
F Jakoet											968	-	968
FJC Truter											2 154	-	2 154
SC Jurisich											1 523	-	1 523
L von Zeuner											2 152	-	2 152
											8 779	-	8 779

¹ Stepped down as executive director and group CEO in February 2018. The contractual payment relates to an exit payment made in February 2018 in terms of a mutual separation agreement, along with his monthly salary and any LTIP vesting entitlements until 31 December 2018. LTIP benefits vesting beyond this date were forfeited.

² Appointed in March 2018 as executive director and deputy CEO. The contractual payment relates to a sign-on award that she was required to invest directly in MMH shares, and is subject to a claw back should she resign from the employ of the group within the next two years.

³ Resigned in March 2018 as executive director and deputy CEO, and consequently forfeited all long-term incentives. The clawback of the retention payment made in September 2018 (R4 million), in terms of the retention agreement, has been enforced.

ANNEXURE D

ABBREVIATIONS AND DEFINITIONS

ABBREVIATIONS

ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
BSA	Bonus stabilisation accounts
CAR	Capital adequacy requirement
CGU	Cash-generating unit
DCF	Discounted cash flow
DPF	Discretionary participation features
ESA	Employer Surplus Account
FSCA	Financial Sector Conduct Authority
FSV	Financial soundness valuation
GCR	Global Credit Ratings
GLTD	Group long-term disability table
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
MML	Momentum Metropolitan Life Limited
MMH or “the group”	Momentum Metropolitan Holdings Ltd and its subsidiaries
OTC	Over-the-counter
PVP	Present value of future premiums
RDR	Risk discount rate
RMI	Rand Merchant Insurance Holdings Ltd
S&P	Standard & Poor’s
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
UK	United Kingdom
VIF	Present value of in-force covered business
VNB	Value of new business

DEFINITIONS

Adjusted net worth (ANW)

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

Advisory practice notes (APNs)

ASSA issues APNs applicable to various areas of financial reporting and practice that require actuarial input. The APNs are available on the ASSA website (www.actuarialsociety.org.za).

Annual premium equivalent (APE)

The APE is a common life industry measure of new business sales. It is calculated as annualised new recurring premiums plus 10% of single premiums.

Basis changes

Basis and other changes are the result of changes in actuarial assumptions and methodologies, reviewed at the reporting date and used in the FSV basis. These changes are reflected in the income statement as they occur.

Bonus stabilisation accounts (BSAs)

BSAs are the difference between the fund accounts of smoothed bonus business, or the discounted value of projected future benefit payments for with-profit annuity business, and the market values of the underlying assets. BSA is an actuarial term that constitutes either an asset or liability in accounting terms. The BSAs are included in contract holder liabilities.

Capital adequacy requirement (CAR)

The CAR is a minimum statutory capital requirement for South African life insurance companies that is prescribed in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

Carry positions

Carry positions consist of sale and repurchase of assets agreements containing the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date.

ANNEXURE D

ABBREVIATIONS AND DEFINITIONS

Cash generating units (CGUs)

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

Compulsory margins

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

Cost of required capital

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

Covered business

Covered business is defined as long-term insurance business recognised in the MMH group integrated report. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the company.

Discretionary margins

In addition to compulsory margins, insurance companies may hold further discretionary margins where the head of the actuarial function believes that:

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

Discretionary participation feature (DPF)

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

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

Effective control

Effective control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying an interest equivalent to more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

Effective exposure

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

Effective interest rate

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

Effective interest rate method

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

ANNEXURE D

ABBREVIATIONS AND DEFINITIONS

Financial soundness valuation (FSV)

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

Fund account

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

Investment variances

Investment variances represent the impact of higher/lower than assumed investment returns on after tax profits.

New business profit margin

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

Non-covered business

Non-covered business includes the directors' valuations of the investment management operations of the company.

Normalised headline earnings

Normalised headline earnings comprise operating profit and investment income on shareholder assets. It excludes the amortisation of intangible assets relating to business combinations as well as BEE costs. It includes basis changes and investment variances

Objective evidence of impairment

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

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in payment.
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset.

Open-ended instruments

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

Prescribed officers

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

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

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

Present value of future premiums (PVP)

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

Present value of in-force covered business (VIF)

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

Related party transactions – key management personnel

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

Reporting basis

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

ANNEXURE D

ABBREVIATIONS AND DEFINITIONS

Required capital

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

Risk discount rate (RDR)

The RDR is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business. The RDR is determined based on the weighted average cost of capital of the company. This has taken into account the sources of capital used to fund the covered business, ie shareholder equity and subordinate debt finance. The required return on equity was derived through application of the capital asset pricing model. The cost of debt financing was based on current financing costs.

Significant influence

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

Statutory basis

The statutory basis is the valuation basis and methodology used for statutory reporting purposes, as reflected in the Insurance Act 2017 and its associated prudential guidelines. It is also used to determine the required capital. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of statutory excess.

Unit-linked investments

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

Unrated

The company invests in unrated assets where investment mandates allow for this. These investments are, however, subject to internal credit assessments.

Useful life

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

Value of new business (VNB)

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

CREDIT RISK DEFINITIONS

AAA

National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.

AA

National ratings denote a very strong credit risk relative to all other issuers.

A

National ratings denote a strong credit risk relative to all other issuers.

BBB

National ratings denote an adequate credit risk relative to all other issuers.

BB

National ratings denote a fairly weak credit risk relative to all other issuers.

B

National ratings denote a significantly weak credit risk relative to all other issuers.

CCC

National ratings denote an extremely weak credit risk relative to other issuers.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

NEW IFRS STANDARDS AND AMENDMENTS

Standards, amendments to and interpretations of published standards that are not yet effective

Effective annual periods beginning on or after	Title
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1 January 2019	IFRS 9 (Amendment) - Financial instruments: prepayment features with negative compensation and modification of financial liabilities
1 January 2019	IFRS 16 - Leases
1 January 2019	IAS 28 (Amendment) - Investments in associates and joint ventures: long-term interests in associates and joint ventures
1 January 2019	IAS 19 (Amendment) - Employee benefits: accounting for plan amendment, curtailment or settlement
1 January 2019	IFRIC 23 - Uncertainty over income tax treatments
1 January 2020	IASB revision of the Conceptual Framework
1 January 2020	IFRS 3 (Amendment) - Business combinations: definition of a business
1 January 2022	IFRS 17 - Insurance contracts

Annual improvements 2015-17 cycle

1 January 2019	IFRS 3 - Business combinations
1 January 2019	IFRS 11 - Joint arrangements
1 January 2019	IAS 12 - Income taxes
1 January 2019	IAS 23 - Borrowing costs

Management is currently assessing the impact of these improvements but they are not expected to have a material impact on the company's financial statements.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the company

IFRS 17 Insurance Contracts

IFRS 17 will replace IFRS 4 on accounting for insurance contracts and will be effective for reporting periods starting on or after 1 January 2022. The effective date for the company is 1 July 2022 (ie 30 June 2023 financial statements will be the first full year results presented on an IFRS 17 basis only and 31 December 2022 will be the first interim reporting period on this basis). Significant effort is required to enable the production of financial statements complying with the standard ahead of these dates, as it requires model and process development as well as data enhancements.

The company's financial reporting infrastructure will also be enhanced to support the efficient production of IFRS 17 in due course. The company is actively participating in a number of industry forums to ensure that the standard is interpreted and applied appropriately and consistently.

IFRS 16 Leases

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard will be replacing IAS 17 Leases for reporting periods beginning on or after 1 January 2019. The effective date for the company will be 1 July 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The anticipated impact for the company (as lessor) will not be significant, due to the accounting model for lessors remaining largely the same under both standards.

From a lessee perspective, IFRS 16 makes no distinction between an operating lease and a finance lease. At commencement of a lease, a lease liability (representing the present value of the lease payments over the lease term) will be recognised with a corresponding asset (representing the right to use the asset over the term of the lease). The income statement impact will be to replace the operating lease expense with a depreciation charge on the right-of-use asset and an interest expense on the lease liability.

On first application of IFRS 16, the standard provides two options:

- retrospective approach; or
- modified retrospective approach with optional expedients

The company will be applying the modified retrospective approach with optional expedients. The lease liability for existing operating leases will be calculated at date of transition. A right-of-use asset will also be calculated. Any difference will be recognised in opening retained earnings. The anticipated value of this difference is expected to be between R55 million and R75 million (as a reduction in retained earnings). The anticipated value of the lease liability and right-of-use asset that will be recognised on 1 July 2019 is expected to be around R520 million.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCIES

Functional and presentation currency

The financial statements are presented in South African rand (the presentation currency), which is the functional currency of the company. The financial statements have been rounded to the nearest R million.

Transactions and balances

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

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

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

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

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

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

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

Impairment

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

Value of in-force business acquired

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

Measurement

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

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

Impairment

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

Customer relationships

An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

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

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Impairment

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

Deferred acquisition costs (DAC)

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

Impairment

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

Computer software

Recognition and measurement

Acquired computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected *useful life* of 3 to 10 years, which is assessed annually, using the straight-line method.

Internally developed computer software

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

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

Impairment

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

OWNER-OCCUPIED PROPERTIES

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

Measurement

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

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

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

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

Depreciation

Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over 5 to 20 years on a straight-line basis. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

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

Disposals

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

INVESTMENT PROPERTIES

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the company. Investment properties include property under development for future use as investment property.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that the future economic benefits associated with the item will flow to the company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

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

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

Transfers to and from investment properties

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

Properties held under operating leases

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

Gains and losses

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

INTEREST IN SUBSIDIARIES AND ASSOCIATES

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Acquisition of subsidiaries or businesses under common control

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

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SIGNIFICANT ACCOUNTING POLICIES

Investments in subsidiaries at fair value through income

Investment in each subsidiary is evaluated to consider whether it is appropriate to measure the carrying amount at fair value through income. Where this is deemed appropriate, the fair value movements are recorded in net realised and fair value gains in the income statement. This policy choice is made once-off and is not revised subsequently.

Investments in subsidiaries at fair value through other comprehensive income

Investment in each subsidiary is evaluated to consider whether it is appropriate to measure the carrying amount at fair value through other comprehensive income. Where this is deemed appropriate, the fair value movements of these investments in subsidiaries are recorded directly against other comprehensive income. This policy choice is made once-off and is not revised subsequently.

Investments in subsidiaries that will be disposed of in the near future

Investments in subsidiaries held exclusively with the view of disposal in the near future (12 months) are accounted for at the lower of fair value less the cost to sell and its carrying amount in terms of the requirements of IFRS 5.

Disposal of investments in subsidiaries

The disposal of investments in subsidiaries carried at fair value through income results in a zero profit or loss on disposal of subsidiary. When investments in subsidiaries carried at fair value through other comprehensive income are sold, the cumulative amount that was accounted for against other comprehensive income is transferred directly to retained earnings.

Associates

Associates are all entities, including collective investment schemes, over which the company has significant influence but not control. The company's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss.

Measurement

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

FINANCIAL ASSETS

Classification

From 1 July 2018 the company classifies its financial assets in the following main categories:

- Financial assets at fair value through income, including derivative financial instruments
- Financial assets at amortised cost

The classification of financial instruments is based on contractual cash flows characteristics and models through which financial instruments are managed (business model).

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, the company has made an irrevocable election at the time of initial recognition to not account for the equity investments at fair value through other comprehensive income (FVOCI).

The company reclassifies debt investments when and only when its business model for managing those assets changes.

• Debt instruments

There are three measurement categories into which debt instruments can be classified:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured mandatorily at FVPL. The company designates debt securities and funds on deposit and other money market instruments at FVPL upon initial recognition when it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities and recognising the gains and losses on them on different bases.

• Equity instruments

The company subsequently measures all equity investments at fair value. The company's management has elected to present fair value gains and losses on equity investments in the income statement.

Recognition and measurement

A financial asset was recognised in the statement of financial position when, and only when, the company became a party to the contractual provisions of the instrument.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

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

Financial assets at fair value through income is subsequently carried at fair value. Financial assets at amortised cost is recognised initially at fair value and subsequently carried at amortised cost, using the effective interest rate method less provision for impairment. Impairment losses are presented in the income statement. Any gain or loss arising on derecognition of assets at amortised cost is recognised directly in the income statement and presented in net realised and fair value gains together with foreign exchange gains and losses.

Impairment of financial assets

From 1 July 2018, the company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For receivables, excluding intercompany loans, the company determines at each reporting date whether there has been a significant increase in credit risk since initial recognition of the financial asset by assessing the likelihood or risk of default occurring since initial recognition based on all reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition. Where there is no significant increase in credit risk since initial recognition or for assets that have low credit risk at reporting date, a 12 month expected credit loss is recognised. Where a significant increase in credit risk since initial recognition occurred a lifetime expected credit loss is calculated.

The company views receivables to be low credit risk when there is a low risk of default and the borrower has the strong capacity to meet its contractual cash flow obligations in the near term. Impairment losses on receivables are presented as net impairment losses within profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Intercompany loan impairment is calculated at each reporting date using probability of default and the loss given default rates. Probability of default rates considers historical defaults as well as forward looking estimates based on macro-economic factors obtained from rating agencies. Loans without repayment terms consider any senior external or internal loans which need to be repaid before the intercompany loan to determine a probability of default, since it reduces the liquid assets available to repay that intercompany loan. Management applies their own judgment, on an individual loan basis, to adjust the prescribed loss given default to include forward-looking information. Balances are written off when there is no reasonable expectation of recovery.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. The company also derecognises a financial asset when the company retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Realised and unrealised gains and losses

Financial assets at fair value through income

Realised and unrealised gains and losses arising from changes in the value of financial instruments at fair value through income are included in the income statement in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under investment income in the income statement.

Offsetting

Financial assets and liabilities are set off and the net balance reported in the statement of financial position where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

Scrip lending

The equities or bonds on loan are reflected in the statement of financial position of the company at year-end. Scrip lending fees received are included under fee income. The company continues to recognise the related income on the equities and bonds on loan. Collateral held is not recognised in the financial statements unless the risks and rewards relating to the asset has passed to the company. If it is sold, the gain or loss is included in the income statement.

Accounting policies applied until 30 June 2018

The company has implemented IFRS 9 retrospectively without restating comparative figures. As a result, the comparative information provided continues to be accounted for in accordance to the company's previous accounting policy.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Classification

Until 30 June 2018 the company classified its financial assets into the following categories:

- Financial assets at fair value through income, including derivative financial instruments
- Loans and receivables

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

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

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

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

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

- held to match insurance and investment contract liabilities that were linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
 - managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy; or
 - a financial instrument that included a significant embedded derivative that clearly require bifurcation.
- **Loans and receivables**
- Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market.

Recognition and measurement

A financial asset was recognised in the statement of financial position when, and only when, the company became a party to the contractual provisions of the instrument. This has not changed on adoption of IFRS 9.

Purchases and sales of financial assets were recognised on trade date, being the date on which the company committed to purchase or sell the financial assets. Financial assets were initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that were directly attributable to the acquisition of the asset. Transaction costs that were not recognised as part of the financial assets were expensed in the income statement in net realised and fair value gains. Financial assets at fair value through income were subsequently carried at fair value. Loans and receivables were recognised initially at fair value and subsequently carried at amortised cost, using the effective interest rate method less provision for impairment.

The fair value of financial assets traded in active markets was based on quoted market prices at the reporting date. Collective investments were valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the company established fair value by using valuation techniques disclosed in Annexure F. These included DCF analysis and adjusted price-earnings ratios allowing for the credit risk of the counterparty. Unquoted securities were valued at the end of every reporting period.

Impairment of financial assets

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

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

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

Amounts charged to the provision account were generally written off when there was no expectation of recovering additional cash.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Derecognition of financial assets

Financial assets were derecognised when the right to receive cash flows from the financial asset had expired or had been transferred, and the company had transferred substantially all risks and rewards of ownership. The company also derecognised a financial asset when the company retained the contractual rights of the assets but assumed a corresponding liability to transfer these contractual rights to another party and consequently transferred substantially all the risks and benefits associated with the asset.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including DCF and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative, subject to the offsetting principles as described under the financial assets accounting policies above.

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

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

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

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

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

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

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

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

Derivatives that do not qualify for hedge accounting

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

CASH AND CASH EQUIVALENTS

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

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS

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

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SIGNIFICANT ACCOUNTING POLICIES

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle: if the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

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

Insurance contracts

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

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

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

Contracts with DPF

The company issues insurance and investment contracts containing DPF. These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Insurance contracts and investment contracts with DPF

Measurement

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

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

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

- For group smoothed bonus business, the liability is taken as the sum of the fund accounts, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the fund accounts less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, BSAs are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the fund accounts. In the case of with-profit annuity business the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.

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- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit compulsory margins as required by SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

- Additional BSAs are held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.
- An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and utilised if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company.
- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market related yield curve as at the reporting date. The yield curve is based on risk free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.

Embedded derivatives

The company does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN 110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present value of business acquired (VOBA), is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding compulsory margins as described in SAP 104 as well as all discretionary margins. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

Impairment of reinsurance assets

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

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

Investment contracts

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

Measurement

The company issues investment contracts without fixed terms and contracts with fixed terms and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income.

For investment contracts without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the company's unitheld investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

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

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

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation technique model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors that a market participant would consider, including the passing of time.

For investment contracts where investment management services are rendered and the contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded option within the investment contract liability. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Deferred revenue liability (DRL)

A DRL is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying amount of the DRL is recognised in revenue.

Deferred acquisition costs

Refer to the intangible assets section of accounting policies.

Amounts received and claims incurred

Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

FINANCIAL LIABILITIES

Recognition and measurement

The company classifies its financial liabilities into the following categories:

- Financial liabilities at fair value through income
- Financial liabilities at amortised cost

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

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

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

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

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

- eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
- managed, with their performance being evaluated on a fair value basis.

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

Issues and settlements of financial liabilities are recognised on trade date, being the date on which the company commits to issuing or settling the financial liabilities.

The fair value of financial liabilities quoted in active markets is based on current market prices. Alternatively, where an active market does not exist, fair value is derived from cash flow models or other appropriate valuation models allowing for the company's own credit risk. These include the use of arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities at fair value through income, such as callable notes which are listed on the JSE interest rate market and carry positions (refer below) are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Changes in the fair value of the financial liability that relates to changes in own credit risk is recognised in other comprehensive income if it does not create an accounting mismatch. Interest on the callable notes, carry positions and preference shares are disclosed separately as finance costs using the effective interest rate method.

Financial liabilities mandatorily at fair value through income are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Carry positions

Carry positions consist of sale and repurchase of assets agreements. These agreements contain the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities at fair value through income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments at fair value through income.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the company's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (carry positions) carried at fair value where they are managed on a fair value basis.

Conversely, where the company purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the company, the consideration paid is included under financial assets carried at fair value where they are managed on a fair value basis.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective interest rate method.

- **Financial liabilities at amortised cost**

Financial liabilities that are neither held for trading nor at fair value are measured at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

Other payables

Other payables are initially carried at fair value and subsequently at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement. Changes in own credit risk allocated to other comprehensive income is not recognised in the income statement when derecognised, but rather transferred within equity.

DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date in respect of temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable.

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the capital gains effective rate, as it is assumed that the carrying amount will be recovered through sale.

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 20% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

INDIRECT TAXATION

Indirect taxes include various other taxes paid to central and local governments, including value added taxation and regional services levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

LEASES: ACCOUNTING BY LESSEE

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the company are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease. The company recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which the termination takes place.

LEASES: ACCOUNTING BY LESSOR

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

CONTINGENT LIABILITIES

Contingent liabilities are reflected when the company has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The company provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

- **Defined contribution funds**

A defined contribution scheme is a fund under which the company pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- **Defined benefit funds**

A defined benefit scheme is a fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the company. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in other comprehensive income as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement.

Interest is recognised by applying the discount rate to the net defined benefit asset or liability and is recognised in the income statement. Other expenses related to the defined benefit plans are also recognised in the income statement.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets yields a debit balance. In such circumstances, the debit balance recognised as an asset in the company's statement of financial position cannot exceed the present value of any economic benefits available to the company in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the company the rules of the fund are considered.

Post-retirement medical aid obligations

The company provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

Termination benefits

The company recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits at the earlier of the following dates: (a) when the company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

The company operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the company measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

The company recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

SHARE CAPITAL

Share capital is classified as equity where the company has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the company are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity.

ANNEXURE E

SIGNIFICANT ACCOUNTING POLICIES

Issue costs

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

DIVIDENDS PAID

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

INCOME RECOGNITION

Income comprises the fair value of services, net of value-added tax. Income is recognised as follows:

Fee income

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Front-end fees are deferred and released to income when the services are rendered over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the company are recognised in the accounting period in which the services are rendered. Services are rendered over the expected duration of the contract, except for performance fees which are recognised at a point in time when the performance obligations are met. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Other fee income

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered. Scrip lending fees are recognised at a point in time. Policy administration services are rendered either at a point in time or over the duration of the contract depending on when the performance obligations are met.

Investment income

Interest income

Interest income is recognised in the income statement, using the effective interest rate method and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the effective interest rate method.

Dividend income

Dividends received are recognised when the right to receive payment is established. Dividend income includes scrip dividends received, irrespective of whether the shares or cash was elected, where it is declared out of retained earnings. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro-rata number of shares; there is no change in economic interest of any investor and there is no economic benefit associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

EXPENSE RECOGNITION

Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

Finance costs

Finance costs are recognised in the income statement, using the effective interest rate method and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the effective interest rate method.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the company's executive committee that makes strategic decisions. Refer to segmental report for more details.

ANNEXURE F

VALUATION TECHNIQUES

VALUATION TECHNIQUES

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

The valuation of the company's assets and liabilities have 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)
- Inputs 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
- 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:

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
<ul style="list-style-type: none"> • 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		
<ul style="list-style-type: none"> • Listed, local • Listed, foreign • Unlisted 	<ul style="list-style-type: none"> Yield of benchmark (listed government) bond DCF, benchmarked against similar instrument with the same issuer DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread 	<ul style="list-style-type: none"> Market input Market input Market input and appropriate spread

ANNEXURE F

VALUATION TECHNIQUES

Instrument	Valuation basis	Main assumptions
<i>Other debt securities</i>		
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Listed, foreign 	Published price quotations, external valuations that are based on published market input	Market input
<ul style="list-style-type: none"> • Unlisted 	DCF (market-related nominal and real discount rates, prime and dividend return rate, bank and credit default swap curves, three-month JIBAR plus fixed spread), external valuations	Market input and appropriate spread
Funds on deposit and other money market instruments		
<ul style="list-style-type: none"> • Listed 	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
<ul style="list-style-type: none"> • Unlisted 	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
Subordinated call notes (Liability)	Price quotations on JSE interest rate market (based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input

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

ANNEXURE F

VALUATION TECHNIQUES

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 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				
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
Unlisted	DCF	Nominal interest rate	7.56% to 11.43% (2018: 7.56% to 11.43%); 6.9% to 15.12% (2018: 6.9% to 15.12%)	The higher the nominal interest rate, the lower the fair value of the assets
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted quoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation

ANNEXURE F

VALUATION TECHNIQUES

Foreign 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
Financial liabilities	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Investment contracts 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

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

ANNEXURE G

ADOPTION OF NEW STANDARDS

ADOPTION OF NEW STANDARDS IFRS 9 TRANSITIONAL ADJUSTMENTS

Statement of financial position	30.06.2018 as per IAS 39 Rm	IFRS 9 class- ification Rm	IFRS 9 ECL adjustment Rm	01.07.2018 as per IFRS 9 Rm
ASSETS				
Financial assets <i>designated</i> at fair value through income	269 456	(269 456)	-	-
Financial assets at fair value through income - designated	-	269 456	-	269 456
Financial assets at fair value through income - mandatorily	-	-	-	-
Investments in associates <i>designated</i> at fair value through income	17 253	(17 253)	-	-
Investments in associates at fair value through income - mandatorily	-	17 253	-	17 253
Investments in subsidiaries <i>designated</i> at fair value through income	65 531	(65 531)	-	-
Investments in subsidiaries at fair value through income - mandatorily	-	65 531	-	65 531
Derivative financial assets	2 770	-	-	2 770
Loans and receivables	6 132	(6 132)	-	-
Financial assets at amortised cost	-	6 132	(16)	6 116
Cash and cash equivalents	12 478	-	-	12 478
Other assets	18 499	-	-	18 499
Total assets	392 119	-	(16)	392 103
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	13 657	-	(16)	13 641
Non-redeemable, non-cumulative, non-participative preference shares	500	-	-	500
Total equity	14 157	-	(16)	14 141
Financial liabilities <i>designated</i> at fair value through income	8 347	(8 347)	-	-
Financial liabilities at fair value through income - designated	-	8 347	-	8 347
Financial liabilities at fair value through income - mandatorily	-	-	-	-
Other liabilities	369 615	-	-	369 615
Total liabilities	377 962	-	-	377 962
Total equity and liabilities	392 119	-	(16)	392 103

The company has implemented IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 July 2018 has been adjusted for any differences in the carrying amounts of financial instruments.

The standard introduces an approach to the classification of financial instruments that is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). The standard amends the previous requirements in three main areas: (a) classification and measurement of financial assets, (b) impairment of financial assets, mainly by introducing a forward-looking expected credit loss (ECL) impairment model and (c) hedge accounting including removing some of the restrictions on applying hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost
- Fair value through other comprehensive income
- Fair value through income

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. The standard eliminates the existing IAS 39 categories of held-to-maturity and loans and receivables.

ANNEXURE G

ADOPTION OF NEW STANDARDS

No significant changes were introduced for the classification and measurement of financial liabilities, except for financial liabilities that are designated at fair value where entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The standard has introduced a new ECL impairment model that will require more timely recognition of ECLs than under IAS 39. An impairment loss must now be recognised prior to a loss event occurring. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The company has not applied hedge accounting to the current or prior year.

Impact on adoption of IFRS 9

Prior to the implementation of IFRS 9, the company designated a significant majority of its financial assets at fair value through income in terms of IAS 39. The application of the classification criteria resulted in the majority of the financial assets being classified mandatorily at fair value through income. Certain policyholder assets were designated at fair value through income due to accounting mismatch. All equity securities remain at fair value through income.

With the majority of the company's financial assets measurement remaining at fair value through income these assets are not subjected to the new impairment model. The significant impacts from changes in the measurement basis of impairment provisions are limited to the company's assets that were previously classified as loans and receivables which are now classified and carried at amortised cost. The impact of applying the ECL model resulted in a decrease in equity of R16 million on 1 July 2018 which primarily relates to loans and receivables.

For the company's financial liabilities that are designated at fair value through income, there were no significant changes in its own credit risk to recognise in other comprehensive income.

All insurance and reinsurance receivables are recognised in terms of IFRS 4 and excluded from the scope of IFRS 9.

The effects of the adoption of IFRS 9 on the statement of financial position as at 1 July 2018 is shown in the table above.

Impact on adoption of IFRS 15

IFRS 15 is effective from periods beginning on or after 1 January 2018. The company has implemented IFRS 15 on 1 July 2018, retrospectively without restating comparative figures.

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The company has assessed the impact of the adoption of IFRS 15 to determine the impact on the opening balance and concluded that there was no significant impact for the company. The opening retained earnings as at 1 July 2018 has therefore not been adjusted for any change in revenue recognition.

SHAREHOLDER DIARY AND ADMINISTRATION

Financial year-end	30 June	
Reporting	Annual financial statements published	3 September 2019
	Annual general meeting	26 November 2019

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