Integrated report 2018

MMI HOLDINGS

momentum multiply METROPOLITAN GUARDRISK EBIS

Contents

Introduction

MMI remains committed to inclusive value creation for all South Africa's people.

Reset and grow

About MMI

MMI Holdings Limited (MMI or the group) is a South African financial services group listed on the Johannesburg Stock Exchange in South Africa and the Namibian Stock Exchange in Namibia. We exist to enable businesses and people from all walks of life to achieve their financial goals and life aspirations. We use our client-facing brands, Metropolitan and Momentum with Multiply, and our other specialist brands, to target specific customers in the markets where we operate. This ensures we reach more people, across a range of their life stage needs.

We help people grow their savings, protect what matters to them and invest for the future. We help companies care for and reward their employees. Through our own advisers, independent brokers and new platforms, we provide practical financial solutions for people, communities and companies.

We achieve this by leveraging MMI's extensive financial services offer and other capabilities, to deliver value to our stakeholders through our client-facing brands Metropolitan and Momentum with Multiply, as well as specialist brands Guardrisk and Eris.

Repositioning and refocusing the business

In the 2018 financial year, the MMI Board of Directors (MMI Board) decided to make certain changes in key management positions and initiated a strategic review to bring about a revitalisation of the group. While MMI's vision and client-centric strategy remains appropriate, the new leadership team has been tasked with implementing the strategy in a more focused manner to improve performance and introduce the next phase of growth for MMI. Key activities include scaling down MMI's geographic footprint in Africa and the United Kingdom, increasing the focus on successfully growing the core businesses in South Africa and narrowing the number of longer term strategic growth initiatives.

The Chairman's letter to shareholders includes details on the rationale for these changes on page 6.

The Group Chief Executive Officer's overview gives details on MMI's move to be more commercial in its thinking and decision-making on page 10, and details the leadership changes in MMI's Executive Committee on page 14.

Chairman's letter

Dear Shareholders

The beginning of the 2018 calendar year coincided with the changes in the leadership of the governing party, the ANC, and this change was aptly termed “the new dawn”.

While leadership changes in the ANC brought about much needed optimism in the country, longer term structural and economic challenges remain. It could be some time before positive change translates into economic growth. The State faces a number of challenges including rising unemployment, declining revenues and rising levels of poverty with limited capacity to respond to these challenges because of the muted economic growth. The leadership changes have, however, presented an opportunity for business, government and labour to work together to build a better South Africa.

MMI remains committed to inclusive value creation for all South Africa's people. We believe business has a major role to play in partnering with government, labour and community-based organisations to achieve economic growth, transformation and inclusion.

In 2018 MMI continued its sponsorship of The Directors Event, a forum where critical issues facing South Africa were discussed by leaders across all sectors in our society. In 2018 we focused the agenda of The Directors Event on youth employment and entrepreneurship, and sustainable technology to develop and grow a more inclusive economy and society. Inclusive growth will be achieved only if practical solutions are found to enable job creation, drive investment, improve educational outcomes, upskill workers for a new digital world and speed up real transformation.

MMI's Deputy CEO, Jeanette Cilliers (Marais), said at The Directors Event that it is just as much the responsibility of the private sector as of the public sector to pitch in.

Leadership changes

The MMI Holdings Board is acutely aware of the fact that the company has lagged the performance of its peers in the sector over the past few years. In light of this, the Board then decided to make certain changes in key management.

Hillie Meyer joined MMI as Group CEO in February 2018, and Jeanette Cilliers (Marais) joined in March 2018 as the group's new Deputy CEO. Of the twelve MMI Executive Committee (Exco) members, five are new to Exco and I would like to assure the executive team of the MMI Board's support to bring about a revitalisation of the company.

Commitment to South Africa

On the corporate social investment (CSI) front, the MMI Foundation has aligned its strategy to youth employment and committed itself to exclusively supporting young people on their journey to employment and to achieving their financial goals and life aspirations. The approach of the MMI Foundation is to prioritise projects where there is a clear path from recruitment, technical training, job placement or self-employment and business mentoring and support. One example of such a project is the Foundation's partnership with the Rhiza Babuyile initiative to develop jobs through a holistic approach that involves skills and enterprise development. The partnership with the MMI Foundation will help Rhiza Babuyile support 400 young people through the Jobs 'n Jozi programme.

Implementing MMI's strategy

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

JJ Njeke
Chairman

The highlights of the 2018 financial year support MMI's strategic objectives. For example, our objective to create a superior client experience has been validated by our Metropolitan client-facing brand's first place in the 2017 South African Customer Satisfaction Index, for the third year in a row. Our strategic goal to diversify geographically into India made excellent progress and the Health and Wellness business partnership with Aditya Birla Capital ended the year with more than one million clients after opening for business in November 2016. Similarly, the aYo microinsurance joint venture with MTN in Africa showed attractive client growth during the year.

The Board also initiated a strategic review, which resulted in scaling down MMI's geographic footprint in Africa and the UK, increasing the focus on successfully growing the core businesses in South Africa and narrowing the number of longer-term strategic growth initiatives.

I am very pleased with the appointment of the new CEO at this time in MMI's history, to streamline and drive the focus on MMI's core South African businesses and to successfully implement the longer-term growth initiatives. The Board does not believe there is a need to revisit the group's strategy in totality, but has confidence that under the new CEO's leadership the executive team will refine the strategy and adjust the implementation approach in accordance with developments in the fast-changing external environment.

Governance

MMI is a values-based organisation and will, at all times, ensure that all our professional relationships mirror our personal integrity, respect for the rights of others, honesty and a commitment to do what is right, fair, reasonable and lawful. All MMI employees and representatives are expected to act in a manner that inspires trust and confidence from our stakeholders, and we have a formal Board approved code of ethics that prescribes our approach to business ethics and our obligations to all our stakeholders.

MMI's governance structures and processes provide for sound management and oversight of MMI in the interests of all our stakeholders, and these structures enhance the ability of the Board and management team to manage our businesses effectively. The Board has reviewed our governance structures and introduced enhancements to further improve oversight. The most significant improvement is the establishment of an Investments Committee that will function as a committee of the MMI Board and consider investments into large new initiatives.

MMI Board

During the year Nicolaas Kruger and Mary Vilakazi resigned from the company and consequently the Board. I would like to thank Nicolaas for his contribution to the group during his 26 years of service, with the last nine years as CEO (including two years as CEO of Momentum).

A highlight of Nicolaas' tenure as CEO was the successful merger between Momentum and Metropolitan to create MMI Holdings in 2010. Mary served as Head of Balance Sheet Management, Finance Director and most recently as MMI Holding's Deputy CEO responsible for its retail operations covering both the Metropolitan and Momentum retail businesses. I would like to thank Mary for her valuable contribution to MMI.

Hillie Meyer, Jeanette Cilliers (Marais) and Risto Ketola were respectively appointed to the MMI Board as Group CEO, Deputy CEO and Finance Director. Hillie is an experienced insurance executive who can contribute immediately to strengthen and further develop the existing executive line-up and support the Board in its succession planning for the longer term. Jeanette brings extensive knowledge of intermediary distribution and operational aspects in retail asset management. Risto joined MMI in 2016 after spending 15 years as an equity research analyst. He is a qualified actuary and brings a unique blend of actuarial skills, understanding of financial reporting demands and industry knowledge into the Finance Director role.

Prospects

In my 2017 letter I stated my expectation for a tough operating environment in the short to medium term, where consumers will remain under pressure and that technology advances will continue to disrupt the industry. This expectation has not changed, but I would be remiss not to again state my sense of optimism for longer-term improvements in our country and in MMI. I continue to believe MMI's client-centric strategic direction is appropriate and have confidence in the management team to implement the strategy in a more focused manner, which will result in improved performance and introduce the next phase of growth for MMI.

Thanks

In closing, I would like to express my thanks to all MMI's stakeholders. To our clients, thank you for the opportunity to provide solutions that enable you to achieve your financial goals and aspirations. To shareholders and the MMI Board, thank you for your support and guidance. I also want to express the Board's gratitude to Syd Muller who, having reached retirement age, retires at the annual general meeting having been on the Board of MMI since the merger.

To MMI's executive management and employees, I value your commitment to the organisation and appreciate all the hard work during the past year.

JJ NJEKE
Chairman

Group Chief Executive Officer's overview

Making MMI proud again

MMI strategy and increased focus on implementation

Having spent a number of months at MMI following my appointment on 15 February 2018, I am in a position to share the following key observations, which confirm the need to turn the business around:

- Although significant work was done to increase client centricity over the past four years through a number of ambitious initiatives, delivery of basic client service deteriorated and improvements with a real and meaningful impact on client experience remained elusive.
- The complex matrix structure implemented a few years ago, resulted in centralised decision-making, disempowerment at segment level, coordination challenges, a lack of accountability, and eventually a lack of delivery. It furthermore resulted in an internal focus and a weakening of the sales focus, which in turn led to a loss of market share over many product lines.
- The decision by the MMI Board and management during the second half of 2017, to selectively exit certain countries in Africa as well as retail initiatives in the UK and to focus on the core South African businesses, was appropriate.
- The core South African businesses are fundamentally sound and of sufficient scale to make MMI a formidable competitor in the market.
- MMI has under-invested in certain key IT capabilities over the past couple of years.
- A number of core businesses (Guardrisk and Momentum Health) continue to show good growth and very pleasing financial results. In addition, businesses like Momentum Short-term Insurance and Momentum Corporate (Employee Benefits) have shown encouraging improvements.
- A portfolio of new growth initiatives is in place, which can be nurtured to make a meaningful contribution to the group in the medium to longer term. This includes the joint venture with Aditya Birla Capital in India, the aYo venture in partnership with MTN, our Money Management initiative and the Lending joint venture with African Bank.
- MMI has incredible talent – people who are loyal, committed and want to be successful. Staff members are, generally speaking, welcoming the increased focus on financial discipline and meaningful delivery.

MMI's vision to be the preferred lifetime Financial Wellness partner with a reputation for innovation and trustworthiness, remains appropriate. It will, however, be

brought to life in simpler terms: We exist to enable businesses and people from all walks of life to achieve their financial goals and life aspirations. The MMI group strategy, which focuses on client centricity, growth and excellence, will therefore remain intact. The specific strategic objectives will, however, be set in more practical and meaningful terms, with an increased focus on delivery. As a group, MMI will be less corporate and more commercial in its thinking and decision-making.

Following a pragmatic analysis, consultation with leadership across the group and multiple workshops, the MMI Executive Committee introduced refinements to MMI's operating model. The new operating model design aims to empower businesses, rather than control them from the centre. The core principles that guided the redesign of the new operating model were to:

- Encourage growth.
- Ensure a real and practical client focus.
- Clarify roles and responsibilities.
- Empower segments with end-to-end accountability.
- Ensure there is a clear efficiency or standardisation benefit where services are centralised.

While I am confident that our new operating model will go a long way to streamline operations, improve speed

Hillie Meyer
Group Chief Executive Officer

to market and help us sharpen our commercial focus, the most important ingredient for our success lies in the way we align to a common purpose as well as an uncompromising pursuit of tangible results.

Senior leadership

During the first nine months of the 2018 financial year, a number of Exco members resigned from MMI. It was therefore critically important to strengthen the executive team and to ensure stability going forward.

I am confident that we have an executive team that is well placed to deliver on the MMI strategy, and which exhibits a healthy balance of experience, youth and diversity. The MMI Exco members and their responsibilities are briefly described below:

- Jeanette Cilliers (Marais), Deputy CEO of MMI (28 years industry experience of which nine years were with Momentum during the early 90s, re-joined MMI on 1 March 2018). She is responsible for Momentum Investments, Momentum Intermediary Solutions, Group Marketing and she coordinates the Momentum Retail Cluster.
- Risto Ketola (15 years experience as an investment analyst specialising in the insurance sector and five years insurance industry experience) is MMI's Group Finance Director.
- Thinus Alsworth-Elvey (22 years industry experience) is the CEO of Momentum Corporate and Health.
- Zureida Ebrahim (14 years industry experience) is the CEO of Multiply. Her portfolio of responsibilities within the Momentum Retail Cluster includes Transactional Banking and the Client Hub.
- Johann le Roux (25 years industry experience, 16 years of which was with the group, re-joined MMI on 1 April 2018) is the CEO of Momentum Life and his portfolio of responsibilities include Retail Life Insurance, Momentum Financial Planning and Lending.
- Peter Tshiguvho (27 years industry experience, 17 of which have been in sales and distribution, joined MMI on 1 March 2017) is the CEO of Metropolitan Retail.
- Herman Schoeman (close to 30 years industry experience of which he spent 15 years with Guardrisk) is the CEO of Guardrisk and Short-term Insurance.
- Jan Lubbe (24 years financial services experience of which five is with the group) is MMI's Group Chief Risk Officer.
- Nontokozo Madonsela (18 years relevant marketing experience, joined MMI on 9 October 2017) is our Group Chief Marketing Officer.
- Linda Mthenjane (22 years relevant experience, joined MMI on 1 October 2016) is the Group Executive of Human Capital.
- Ashlene van der Colff (16 years industry experience, joined MMI on 1 May 2016) is MMI's Group Chief Operating Officer.

Financial performance

MMI's financial results for the financial year to 30 June 2018 were disappointing. The results were impacted by the tough economic environment and weak investment markets, but internal shortcomings also played a role in the 12% reduction in core headline earnings. It is worth pointing out that if new growth initiatives, which places a strain on earnings are excluded, the operating profit on the established businesses declined by 5% compared to the prior year.

New business sales increased by 1% when measured as present value of new business premiums (PVNBP), but new business margins reduced from 1.3% to 0.7%. We continued to invest in key strategic initiatives and expense management remains a priority in an environment of weak revenue growth. MMI's capital base remains adequate under both the old Capital Adequacy Requirement method and the recently implemented SAM solvency standard. In the six months to 30 June 2018 MMI repurchased around R971m worth of its own shares to capitalise on the deep discount to embedded value implied by the market price.

For further details on the financial performance, please refer to the Group Finance Director's report on page 36.

Transformation

We are committed to creating sustainable transformation in the South African economy and have achieved a Level 3 contributor status under the more stringent Financial Sector Code (FSC) that was promulgated in December 2017. Transformation remains a critical building block to realise our strategy and we are determined to restore our previous Level 2 rating. In the immediate future, emphasis will be placed on improving the diversity of our senior and middle management teams.

Looking ahead

A comprehensive financial services company like MMI is not easy to turn around. The maturity of the South African insurance industry and modest short-term growth prospects for our economy mean that a strong reliance on revenue increases to improve financial results will be imprudent. We aim to turn our attention to financial discipline, cost efficiencies and streamlining infrastructure to restore normalised annual earnings to a level of between R3.6bn and R4bn by 2021. During this time, we will be working hard to build the foundation for longer-term prosperity, which will depend on revenue growth, a strong sales and service culture and relevant digital enablement. The strengthening, expansion and enablement of our sales channels therefore remain an important strategic imperative.

Thanks

Recently, the MMI Exco embarked on a programme to articulate to MMI's leaders and other stakeholders what was required to turn MMI around. This marked the start of a process to unite all staff around a common goal, named “Making MMI proud again”. The call to action of staff spontaneously evolved into the phrase “#CountUsIn” being adopted by staff across the organisation, with many staff members taking photographs of themselves demonstrating their commitment to the “#CountUsIn” campaign. The movement is being harnessed to connect employees to specific strategic deliverables. I would like to particularly thank MMI's staff for their visible support in “Making MMI proud again”. I also appreciate the ongoing commitment of our Exco team, the continued support of our shareholders and clients, and the valuable guidance from the MMI Board.

HILLIE MEYER
Group Chief Executive Officer

Executive Committee

Hillie Meyer (59)
Group Chief Executive Officer
BCom (Econometrics), Fellow of the Institute of Actuaries, AMP (Oxford)

Jeanette Cilliers (Marais) (50)
Deputy CEO, Chief Executive Momentum Investments (including the UK) **and Momentum Intermediary Solutions and Group Marketing**
BSc (Mathematics and Statistics), MBA (with Honours) (IMD Switzerland), PED

Risto Ketola (43)
Group Finance Director
BSc (Economics and Statistics), CFA Charterholder, Fellow of the Institute of Actuaries

Johann le Roux (51)
Chief Executive: Momentum Life
BSc (Hons), MBA, Fellow of the Actuarial Society of South Africa

Peter Tshiguvho (52)
Chief Executive: Metropolitan Retail
BA (Pscyhology), MBA, CFP

Thinus Alsworth-Elvey (44)
Chief Executive: Momentum Corporate and Health
BCom, LLB, LLM, H Dip Tax, CFP

Zureida Ebrahim (41)
Chief Executive: Client Engagement Solutions
BCom (Economics and Law), MAP

Herman Schoeman (55)
Chief Executive: Guardrisk and Short-term Insurance
BCom, MBA

Nontokozo Madonsela (40)
Group Chief Marketing Officer
BCom Marketing

Linda Mthenjane (46)
Chief Executive: Human Capital
BA (Honours in Psychology), Masters of Arts (Clinical Psychology)

Jan Lubbe (47)
Chief Risk Officer
CA(SA), MBA, MCom

Ashlene van der Colff (44)
Group Chief Operating Officer
BSocSc, BCom Honours, PGDip Accounting, HDip Tax Law, CA(SA)

Our performance at a glance

Core headline earnings decreased by **12%** to R2 809m

Embedded Value per share decreased by **4%** to R25.43

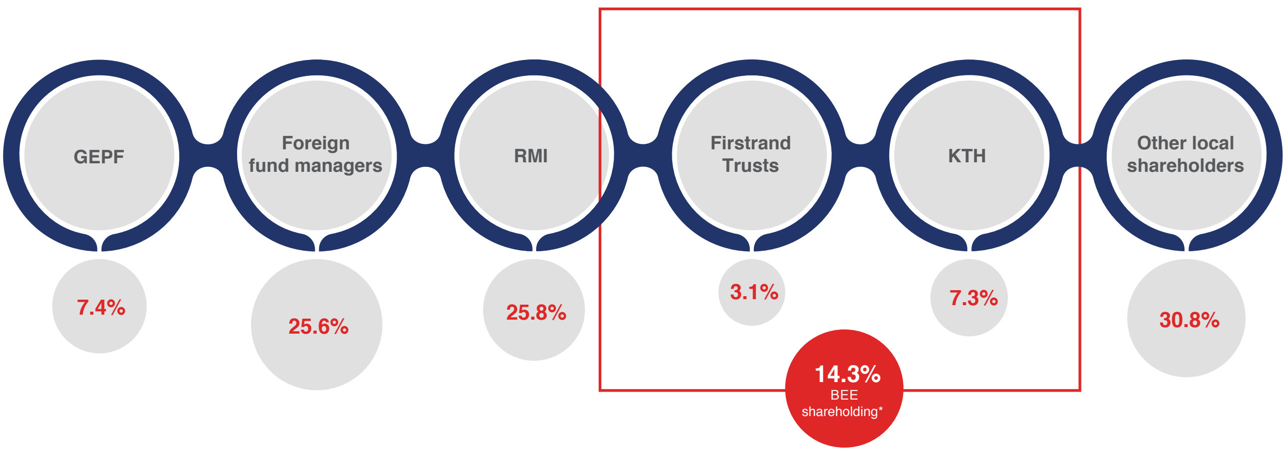
Present value of future premiums increased by **1%** to R42 177m

Value of new business decreased by **45%** to R301m

47 MILLION **number** of shares acquired

R971m **Spent on repurchases** to 30 June 2018

Shareholder structure



*Royal Bafokeng Holdings owns 15% of RMI → 15% RMI + FirstRand Trusts + KTH = 14.3% BEE Shareholdings

Facts and figures

Gender diverse

62% FEMALE

38% MALE

Employees on a global scale

South Africa **13 672**

International **3 263**

Corporate social investment spend

Over **R12.0 million** on education

Proudly diverse

Level 3 B-BBEE status

Number of clients

Momentum Retail	Metropolitan Retail	Momentum Corporate	International (excl India)	India
1.1 MILLION	2.2 MILLION	2.1 MILLION	1.1 MILLION	1.1 MILLION

Total **7.6 million** clients

Awards and recognition

Sunday Times Top Brand Survey
Momentum and Metropolitan were awarded top five across four categories:

- Long-term insurance (consumer category) – Metropolitan Life.
- Long-term insurance (business category) – Momentum Life.
- Medical Aid (business category) – Metropolitan and Momentum.
- Investment company (business category) – Momentum.

Aditya Birla Capital Health Insurance (India) received three awards at the Life Insurance International Innovation Forum and Awards 2017:

- Most innovative life/health insurance start-up of the year.
- Digital innovation of the year – insurers.
- Best use of social media and most engaging customer experience.

Metropolitan Ghana received two awards at the Ghana Accountancy and Finance Awards 2017:

- **Accounts and Finance Team of the Year – Insurance** Metropolitan Life Insurance.
- **Top Transparent Pension Corporate Trustee** Metropolitan Pension Trust.

Metropolitan Retail received the highest overall rating in the latest South African Customer Satisfaction Index for life insurance companies for the third year in a row with a score of 80.8.

Momentum's Smart Exit solution (developed with Accenture) won the gold award in the Service Design category at the Loeries. The Metropolitan Metro Kickstarz project was listed as a finalist in the Live Events category.

Momentum's FundsAtWork Umbrella Funds won the Batseta Imbasa Yegolide Awards Fund Challenge for Financial Control – Managing current Expenditure, with Motheo Financial Dialogues.

Momentum was a finalist in the following Financial Intermediaries Association of Southern Africa (FIA) awards categories:

- Employee Benefits.
- Medical Schemes.
- Long term savings.
- Short term personal lines.

MMI retained its listing on the FTSE/JSE Responsible Investment Index.

MMI was listed for the first time on the FTSE/JSE Responsible Investment Top 30 Index.

MMI retained its listing on the FTSE4Good Index.

About this report

Our 2018 integrated report provides a comprehensive overview of the activities of MMI, and its financial and non-financial performance for the 12 months from 1 July 2017 to 30 June 2018. The report also gives detail on the group's refocused and simplified operating model, strategy and various matters that are considered to be material.

Material matters

In determining the content to be included in this report, we consider factors that impact value creation for our stakeholders over the short, medium and long term. We also consider factors that affect the economic growth and social development of the countries we operate in. We regard an issue to be material when it impacts our ability to achieve our strategy. Over the past few months, MMI's leadership reassessed our material issues and identified factors required for the group to sustain its earnings growth and drive value creation.

True client focus is at the very centre of our strategy. As we move forward we are determined to ensure that we simplify our businesses which had become over complicated. We will do this by:

- Implementing the new simplified operating model by:
  - Creating end-to-end businesses with increased accountability.
  - Empowering business leaders to improve agility and to speed up decision making.
  - In doing this, driving product innovation to become more competitive.
- Investing in and rebuilding our various distribution capabilities to drive new business volumes by:
  - Expanding our footprint.
  - Improving productivity per intermediary.
  - Developing improved adviser tools and deepening their user experience.
  - Enhancing our direct client capability.
- Improving client and intermediary satisfaction to retain clients and increase intermediary support by:
  - Improving the service model and engagement platform.
  - More intensive monitoring of delivery against client expectations.
- Continuously improving efficiency in everything we do by:
  - Digitising the client, intermediary and employee engagement environment.
  - Migrating dated IT solutions to fit-for-purpose platforms.
  - Managing operating expenses.
  - Innovating to generate business efficiencies and to reduce costs.
- Maximising value from our main areas of capital deployment by:
  - Achieving optimal returns from existing initiatives (Joint ventures respectively with African Bank, Aditya Birla Capital and aYo with MTN and our Exponential Ventures business).
  - Following a more disciplined approval and funding model for future initiatives.
- Driving excellence in the way we operate to enhance delivery and execution by:
  - Continuing to drive growth and profitability in Momentum Short-term Insurance and Health.
  - Rebuilding our investment brand to generate flows and maintain our excellent investment performance.
  - Capital optimisation and deployment.
- Exiting marginal operations outside of South Africa.

Reporting frameworks

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

The full report:
- International Integrated Reporting Council (IIRC) Framework.
- JSE Listings Requirements.
- King IV Report on Corporate Governance for South Africa™ 2016 (King IV).

Corporate governance report and remuneration report:
- King IV.
- JSE Listings Requirements.
- Companies Act, 71 of 2008 (Companies Act).

Financial statements:
- International Financial Reporting Standards (IFRS).
- Companies Act.
- JSE Listings Requirements.
- King IV.
- Long-term Insurance Act, 52 of 1998 (Long-term Insurance Act).
- Short-term Insurance Act, 53 of 1998 (Short-term Insurance Act).
- Insurance Act, 18 of 2017 (Insurance Act).
- Guidelines issued by the Actuarial Society of South Africa (ASSA).

The capitals impacting our ability to create value

Financial capital, intellectual capital, human capital and social capital are imperative for the successful creation of value for our business and our stakeholders. Although MMI is not a major consumer of natural capital, we acknowledge the important role of business in protecting natural capital and act to reduce our impact accordingly.

This report is not structured according to the IIRC Framework's six capitals, but these are embedded within the report as appropriate.

Assurance

The non-financial content of this report was prepared by management and approved by the MMI Board of Directors (the Board) through its relevant committees. PricewaterhouseCoopers Inc. have audited the consolidated and separate annual financial statements and expressed an unmodified opinion for the year ended 30 June 2018. External assurance of non-financial content has been limited to our broad-based black economic empowerment (B-BBEE) scorecard (verified by accredited ratings agency NERA) and our carbon footprint (verified by Global Carbon Exchange).

*Certificates in respect of our B-BBEE scorecard and carbon footprint are available on the MMI website **www.mmiholdings.com**.*

Forward-looking statements

Certain statements in this integrated report may be defined as forward-looking as defined by the United States Securities legislation.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that could result in the actual results, performance or achievements of the group being materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements may be identified by words such as *expect, believe, anticipate, plan, estimate, intend, project, target, predict, outlook*, and words of similar meaning.

Forward-looking statements are not statements of fact but statements by the management of MMI based on current estimates, projections, beliefs, assumptions and expectations regarding the group's future performance. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

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

Approval by the MMI Board of Directors

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

The Audit Committee of the Board has also evaluated the integrated report, prepared from information provided by management, and considers the group annual financial statements compliant, in all material respects, with the required legislation and standards.

HILLIE MEYER
Group Chief Executive Officer

JJ NJEKE
Chairman

MMI online

All information contained in our integrated report is published on our website. Where information is only available on the website, it is indicated accordingly.

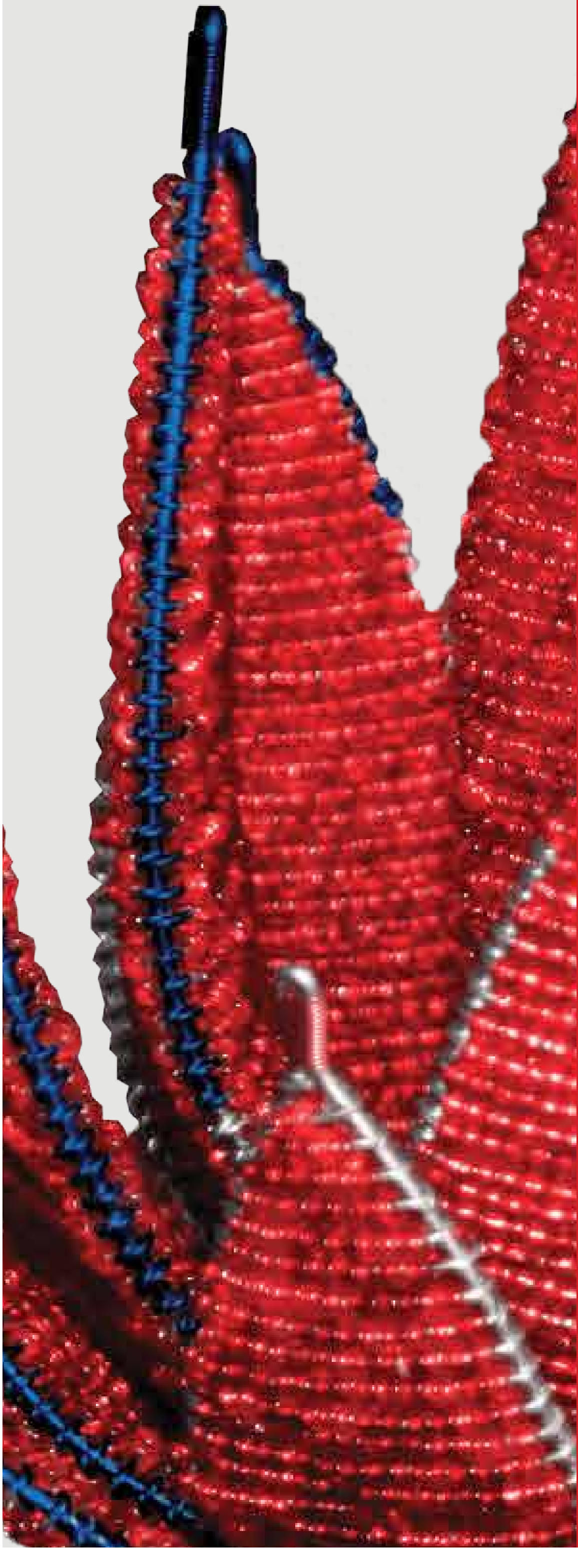
*Stakeholders can also access the following information on the MMI website **www.mmiholdings.com**:*

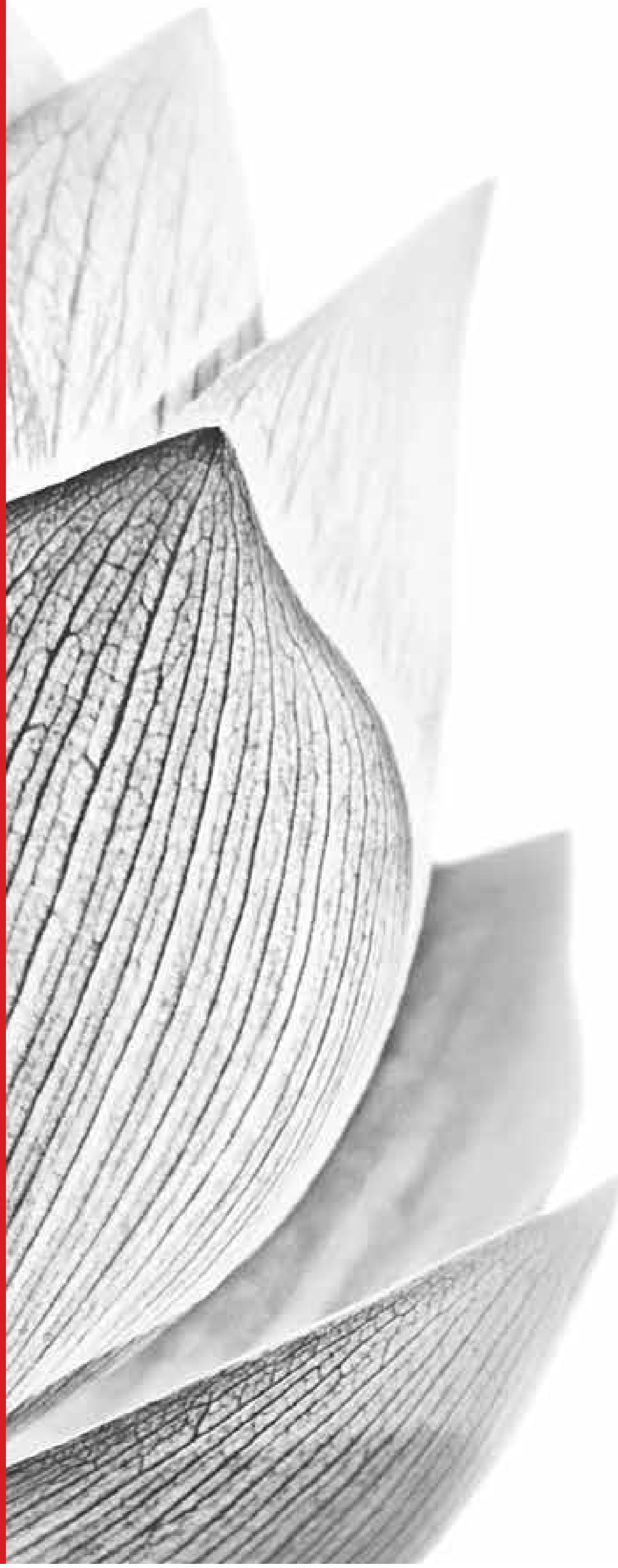
- *Sustainability information in the sustainability section.*
- *Information on our share price performance and other economic data in the investor relations section.*

MMI's registered office

268 West Avenue,
Centurion,
South Africa,
0157

Telephone: +27 12 671 8911





How we create value

We help people grow their savings, protect what matters to them and invest for the future by providing practical financial solutions for people, communities and companies.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Group strategy

To be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.

We champion inclusivity, diversity and fairness and are proud of the benefit these bring. Our values-driven culture drives our strategy and operating model and helps us meet the needs of our stakeholders to deliver lifetime shared value.

MMI'S GROUP STRATEGY

Our strategy aims to generate superior shareholder returns through leading products, valuable distribution partnerships and excellent client experiences through employee brand ambassadorship.

These capabilities enable business and people from all walks of life to achieve their most important financial goals and life aspirations.

CLIENT ASPIRATIONS

We utilise the combined efforts of our client-facing brands Metropolitan and Momentum with Multiply, along with our specialist brands, to target specific sectors, thereby reaching more people, across a range of their life stage needs. We help people grow their savings, protect what matters to them and invest for the future and help companies care for and reward their employees. We provide practical financial solutions for people, communities and companies through our own advisers, independent brokers and new platforms. We aspire for our clients and intermediaries to experience MMI's client-facing brands as:

- **Understanding their needs.**
- **Interested in their wellbeing and success over their lifetime.**
- **Offering value for money.**
- **Providing easy-to-use products.**
- **Designing innovative, tailored solutions.**
- **Reliable and trustworthy.**

FINANCIAL ASPIRATIONS

Achieving our client aspirations supports the realisation of MMI's financial aspirations. Creating shareholder value is our primary financial aspiration, supported by earnings growth and growth in the value of new business. Long-term value creation is measured by MMI's return on embedded value.

MMI'S STRATEGY MAP

This guides what we do to implement our strategy. Each component of our strategy map has a corresponding balanced scorecard measure to track our progress with implementation. To deliver on our purpose and strategy, we have re-designed a simplified operating model focusing on empowerment and accountability.

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

CLIENT CENTRICITY

We want to create superior client and intermediary experiences, while helping them achieve their financial goals and life aspirations. Our Multiply wellness and rewards programme plays an important role in providing outstanding experiences for our clients and encourages and rewards behaviours that drive holistic wellbeing, both financially and physically. This also increases the lifetime value of our clients, who consequently use more of MMI's products and remain clients for longer.

GROWTH

A critical strategic focus underpinned by three strategic objectives:

1 INCREASE THE VALUE OF EXISTING CLIENTS

with cross-selling: our Multiply wellness and rewards programme is a key initiative to advance this objective.

2 INCREASE THE CLIENT BASE

through channel growth, comprising of improving the productivity of our intermediaries, increasing the size of our face-to-face sales force, and of developing alternative distribution channels.

3 GROWTH THROUGH GEOGRAPHICAL DIVERSIFICATION

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

EXCELLENCE

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

ENABLERS

Realising MMI's client-centric strategy relies on four key enablers:

- A world-class data analytics capability that enables the proactive creation of a superior client experience.
- Flexible and modular systems that take advantage of ongoing technology advances.
- A collaborative and client-centric culture that supports MMI's strategy.
- Innovation as a way of business.

MMI'S VALUES

Accountability

Integrity

Teamwork

Diversity

Innovation

Excellence

To deliver on our purpose we have refined our strategy and adjusted the implementation approach.

MMI's operating model

Our operating model has been strategically reset with a focus on empowerment and accountability. The goal was to unleash the natural energy and commercial drive of each segment, through this reset. With this as its basis, MMI has completed a review of its operating model, following a detailed analysis and consultation with leadership across the group. Core principles were embedded at the outset of the process to guide our thinking and to ensure that the operating model:

- Encourages growth.
- Has a real and practical client focus.
- Clarifies roles and responsibilities.
- Empowers our segments with end-to-end accountability.

This updated model will drive a close partnership between Product Houses, Segments and Multiply.

Our operating model which has been reset, with a focus on empowerment and accountability, relies on continuous engagement with all our stakeholders.

MMI's stakeholders

MMI understands the importance of engaging with our stakeholders in helping businesses and people from all walks of life to achieve their most important financial goals and life aspirations.

Governance, remuneration and risk management

Maintaining the highest standards of corporate practice and conduct, linking remuneration to performance, and embedding risk management into our culture, practices and business processes is the underpin for success of our business.

Operating model

MMI'S OPERATING MODEL

HOW OUR BUSINESS WORKS

We offer the following products and services for both individuals and corporates:

Long and short-term insurance.	Asset management, property management, investments and savings.
Healthcare administration and health risk management.	Client engagement solutions, including the Multiply wellness and rewards programme.

Our products and services are delivered through the following segments:

Momentum Retail
Lifetime client value propositions for the middle, upper and high net worth markets.

Metropolitan Retail
Needs-based solutions for clients in the emerging and middle income markets.

Momentum Corporate
Holistic solutions for the needs of corporates and public sector entities.

International
Solutions for clients in African countries outside South Africa, and in India.
Investment solutions for clients in the UK.

These segments are supported by the shared capabilities of:

Finance	Human Capital	Brand and Marketing
Risk	Operations	

Delivering value for our stakeholders

Financial outcomes

Profitable growth depends on our ability to deliver on our strategy and create value for all our stakeholders.

STAKEHOLDER	INTEREST	OUTCOME	REFERENCE
Shareholders	Earnings.	Core headline earnings of R2 809 million.	• Finance Director's report – page 36. • Performance at a glance – page 16.
Clients	Achieving their financial goals and life aspirations.	Paid insurance benefits and claims of R27 232 million.	• Financial statements – page 120. • Segment reviews – starting on page 44.
Employees	Providing career opportunities, enhancing employee wellness and helping them achieve their financial goals.	• 16 935 employees. • Skills development spend of R153 million. • Paid employee benefits of R5 457 million.	• Performance at a glance – page 16. • Financial statements – page 120.
Communities	Creating lasting benefits for the communities in which we operate by addressing barriers to achievement of their financial goals and life aspirations.	Corporate social investment spend of >R25 million.	Creating social and environmental value – page 70.
Regulators and government	Compliance with all regulatory requirements and providing industry input to new legislation.	• Broad-based black economic empowerment (B-BBEE) Level 3 contributor. • Income tax paid of R3 039 million.	• Transformation review – page 66. • Financial statements – page 120.
Suppliers	Fair and ethical dealings that contribute to employment and growth in the economy. Offering enterprise and supplier development funding.	• B-BBEE Level 3 contributor. • B-BBEE trust established to increase enterprise and supplier development contribution.	Transformation review – page 66.
Intermediaries and brokers	Formal employment with appropriate benefits and career development opportunities. Offering a competitive suite of products.	Sales remuneration paid of R5 796 million.	• Financial statements – page 120. • Transformation review – page 66.

Group profit drivers

The main determinants underlying MMI's 2018 financial outcomes (earnings and return on embedded value) are set out below. Earnings and value drivers specific to segments and lines of business are covered in more detail under the segment reviews starting on page 44.

EARNINGS AND/OR VALUE DRIVERS	
New business volumes	New premium receipts on **long-term insurance** business (life insurance and savings/ investment) remained, on aggregate, at nearly the same level as the previous financial year. Modest growth in South Africa (SA) retail and corporate segments (both single and recurring premiums) was partially negated by a slight decline in new business written outside SA. New premium income from LISP business also declined from the prior year (in both SA and the UK). In general, lower-margin savings and investment business enjoyed stronger new business growth than higher-margin risk business. Growth in new **short-term insurance** premiums was very satisfactory, with new premiums from Momentum Short-term Insurance (MSTI) increasing by 39% from the previous financial year and new fee receipts from cell captives (Guardrisk) growing by more than 30% year-on-year. (These relate to new business, not the total book). The increase in MSTI new premiums was particularly pleasing, in light of a commensurate improvement in claims ratio from 73% in F2017 to 67% in F2018. In SA, membership of **health administration** business was stable year-on-year, with declines from corporate schemes (mainly the loss of the SAB scheme), counterbalanced by growth in the Momentum Health open scheme and by strong growth in health products aimed at the lower-income market segment. Health insurance business in **India** (joint venture with Aditya Birla Capital) is progressing according to plan. Over the financial year, the size of the book (in terms of number of lives covered) more than doubled last year to more than a million as at 30 June 2018. Compared to schemes in South Africa, this is substantial, although it should be noted that average premiums in India are lower than in SA. Furthermore, good progress has been made in tilting the business mix more towards higher-margin retail products, as opposed to lower-margin corporate schemes. The proportion of retail business on the books increased from 3% at 1 July 2017, to 26% at 30 June 2018.
Value of new business (VNB)	MMI's value of new business written during F2018 (excluding short-term insurance, cell captives and off-balance sheet business) was substantially lower than the VNB from new business written during F2017. The decline follows a sharp contraction in margins from the SA retail and international segments, coupled with modest growth in volumes. In the **SA retail** environment, the VNB from Metropolitan Retail was negatively impacted by a more cautious view on future persistency, whereas the VNB from Momentum Retail was characterised by a substantial decline in margins from structured and LISP savings products, following changes to pricing and expense allocations on these product lines. Outside SA, new business originating from Namibia suffered a substantial decline in VNB, due to a reduction in volumes coupled with an increase in new business expenses. In partial mitigation to the contraction in VNB from the SA retail and international segments, the VNB from **Momentum Corporate** exhibited a healthy increase over the previous year. New business margins in the corporate segment improved, following an increased focus on the quality of new business, while volumes remained intact.

EARNINGS AND/OR VALUE DRIVERS	
Persistency (client retention)	As far as **retail** business is concerned, the Momentum Retail book experienced persistency in line with expectations, with some reduction in terminations from investment business, following a change to more competitive pricing. Metropolitan Retail, on the other hand, continued to experience poor early-duration persistency on its funeral book, which led to revised valuation assumptions and a lower value of new business. Higher first-year terminations were especially evident where debit orders (as opposed to stop orders) are used as method of payment. **Momentum Corporate** also experienced an increase in terminations on its risk book. However, here the impact on profitability is expected to be positive, as it was mainly unprofitable schemes that elected to terminate their coverage, rather than pay increased premiums in line with their risk profiles.
Claims	Both **retail** operations (Momentum and Metropolitan) experienced positive underwriting results, with claims incurred over the reporting period being lower than expected according to actuarial assumptions. Within **Momentum Corporate**, underwriting experience on disability income products showed a marked improvement over the previous two financial years, following a re-rating of this class of business. The remaining (moderate) underwriting loss from the disability income book was offset multiple times by positive underwriting results from group life and funeral business. Underwriting experience within **Momentum Short-term Insurance** continued to improve, with the claims ratio improving from 73% in F2017 to 67% during F2018, despite heavy claims from catastrophic weather events during the last quarter of 2017.
Expense management	On aggregate for MMI, management expenses incurred during F2018 (excluding sales remuneration) remained almost unchanged from F2017. In real terms, compared to CPI inflation over the period, this represents a saving of about 4% from the prior year.
Investment markets, economic conditions and exchange rates	MMI's headline earnings and return on embedded value are strongly correlated to investment market conditions – particularly long-term interest rates (negatively correlated) and equity market returns (positive correlation). While the strong local equity market performance during the first half of the F2018 financial year was partially negated by lackluster returns over the second half, the total return from equity and bonds over the 12 months to 30 June 2018 was sufficient, as to not result in any meaningful investment profits or losses arising from the **long-term insurance** book over the period. Assets underlying MMI's **shareholder capital** portfolio are conservatively invested, primarily in cash or near-cash instruments, plus some property exposure. The shareholder portfolio is therefore largely immunised from equity market fluctuations. However, it could be noted that investment returns achieved from shareholder assets during F2018 have been somewhat lower than during F2017, due to some higher-yielding instruments having reached maturity and the proceeds having been reinvested at lower yields during the period.

New Initiatives

As a strategic enabler, innovation is core to our vision and is one of our values. We follow a three-pronged approach to drive innovation across MMI, comprising our internal culture, adapting our way of work to be more agile and MMI's externally-focused disruptive innovation initiatives.

Agile way of work

We are in the process of transforming our way of work to be more agile. This entails empowered cross-functional teams rapidly solving problems within a defined sphere of influence. Continuous refinement and testing of solutions with clients and intermediaries further enable decisions made based on sound data as well as internally produced assumptions. We actively seek technology tools that can be used and potential partnerships with external entities that can help us to solve problems. We do not believe that "one size fits all" applies across the group and will ensure fit for purpose changes in different segments.

During 2018, we experimented with this agile way of work in numerous areas across the business. These experiments have proved to us that the benefits of agile are material and attainable. Innovative solutions, meeting real client needs, using new technology tools have been developed in shorter timeframes. In addition, employees in these teams have experienced greater motivation, creativity and personal growth.

Momentum Retail piloted a 24 week agile project to make the life insurance onboarding journey easier for our financial advisers and our clients. This has led to a significantly faster, paperless onboarding process decreasing the onboarding time for new business by a day and achieving a 55% adoption rate among Momentum Financial Planners of a new cross-platform quotation system. This and other enhancements will be rolled out to the adviser community before the end of the 2018 calendar year.

Exponential Ventures

MMI's disruptive innovation initiative is called Exponential Ventures. This business focuses on transformational innovation opportunities in the areas of fintech and insurtech. We believe the technology advances that have disrupted many industries will have a significant impact on financial services.

Exponential Ventures is working to head off this threat by turning potentially disruptive technologies into opportunities for growth over the long term. This includes working closely with startups where relevant.

Through our venture capital partners in the UK, Anthemis, we have invested in a number of startups that are leveraging the transformative power of digital financial services. We have also established a venture developer partnership with Anthemis to build businesses at the forefront of Financial Wellness over the next few years. Similar investments have been made in South Africa, working with our local venture capital partner, 4Di Capital.

In the last year, MMI has made strides with key value propositions as part of the Exponential Ventures initiatives.

Kimi – Momentum's new mobile health engagement solution

As the world is increasingly exposed to the Internet of Things (IoT), insurers are faced with interpreting new and very large datasets and understanding the impact on their client offerings. Kimi, our new mobile health engagement solution, has been designed and developed to consider new deep physiological datasets curated from wearable sensors in cooperation with technology startup LifeQ.

Artificial intelligence is at the heart of Kimi. Through LifeQ's data streams and co-developed (LifeQ and Kimi/MMI) health scores, Kimi can start to develop a unique and individual profile and interaction with individuals. Our scores focus on three key health elements, namely heart health, sleep health and activity/motion health. Each of these elements create a predictive basis on which to provide embedded life cover to clients for the duration of a Kimi contract. The impact of sleep and sedentary time on overall individual health, and the scores of these two features have overarching health impacts and high correlations to many diseases.

In order to bridge the gap between the various methods of current data collection, Kimi also offers a freemium version to clients based on both subjective and rudimentary mobile measures, helping to educate and transition clients into a wearable device future.

TaxTim and Momentum/Multiply Integration

Insurers in South Africa are looking for new and progressive ways to attract the increasing number of digital natives and millennials. TaxTim, a digital tax solutions startup, and Momentum/Multiply have designed a proposition which allows clients to submit their tax submissions for free, earn Multiply points, and obtain a tax score which they can share with their adviser. These provisions provide a way of consolidating and reutilising client data for their benefit whilst simplifying the financial needs analysis process for advisers.

Root Insurance

Root Insurance, which was launched in April 2018, is an exciting new technology platform API that enables software developers to rapidly prototype, launch and manage legally compliant digital insurance products into South Africa's market on the Guardrisk insurance licence.

Targeting software developers, the platform is the first insurtech of its kind in South Africa and one of only a handful of such platforms globally. It gives developers the building blocks to create and launch a fully compliant insurance product in a matter of days, using only code. The platform reduces costs and time to market drastically, it also supports the administration of the insurance policies from issuing these policies to collecting premiums and handling claims.

The improved efficiency made possible by Root Insurance's model makes it viable to address small market niches and to deliver more value for money on low-premium products. The platform is being targeted at:

- Non-insurance companies or brands that have significant customer bases and/or powerful routes to market.
- Insurtech start-up companies that have limited available capital and non-existent or limited client bases.
- Incumbents in the insurance sector, either on the product side or the distribution side, who can benefit from the innovation and agility that the platform makes possible.
- Root Insurance is a developer-focused platform that has the potential of disrupting the insurance industry as it collapses the barriers that software innovators face in entering the industry.

aYo – MMI's microinsurance joint venture with MTN

aYo is the 50/50 microinsurance joint venture launched in September 2016 between MMI Holdings and MTN Group. Utilising the resources and capabilities that MMI and MTN share allows aYo to make insurance relevant, accessible and easy to use in Africa.

The microinsurer, which began its rollout in Uganda in January 2017 provides pre-paid MTN customers with free and paid-for life and/or hospital cover each time they load MTN airtime.

In addition to Uganda where MTN has 11 million subscribers, aYo also operates in Ghana where MTN has 17 million subscribers providing a significant foundation for future growth. The venture exceeded the one million clients enrolled milestone in Uganda in June 2018.

MTN has a presence in 22 countries in Africa and the Middle East with over 217 million subscribers, making it Africa's largest mobile operator network. aYo's expansion plan over 2018/9 will see the business moving into several new countries with microinsurance products that are relevant, accessible and easy to use.

aYo has made massive strides in helping to create a future where more people in Africa use insurance, through raising awareness of the benefits of life and hospitalisation cover.

Performance

We are building a better business to improve our performance and introduce our next phase of growth for MMI.

5

Group results

Financial year 2018 was a tumultuous year on many fronts. The South African economy continues to struggle despite the global economy providing a favourable backdrop. In addition, the market rally and business confidence benefit from political changes in December 2017 were short-lived compared to initial expectations.

Within MMI we also experienced significant changes with the most externally visible being that the CEO, Deputy CEO, and FD are now all different to that of a year ago. There was also significant turnover in other key positions in the group, plus the new management team implemented changes to operational and tactical plans upon appointment. All of these developments caused some degree of short-term uncertainty. The new leadership team has agreed upon a roadmap that, if delivered on, is expected to result in normalised headline earnings of R3.6bn – R4.0bn by F2021, three years from now. This earnings range is the target that we will measure ourselves to over the next three years.

Group results – earnings

Core headline earnings declined by 12% to R2 809m during F2018. Operating profit before the increased share of losses in our new initiatives were down 5% year-on-year.

Rm	F2018	F2017	Year-on-year (%)
Momentum Retail	955	1 281	(25)
Metropolitan Retail	582	660	(12)
Momentum Corporate	903	835	8
International	227	19	> 100
Operating profit	**2 667**	**2 795**	**(5)**
New Initiatives	(322)	(195)	(65)
Shareholder Capital	464	608	(24)
Diluted core headline earnings	**2 809**	**3 208**	**(12)**

Risto Ketola
Group Finance Director

Momentum Retail, which focuses mainly on middle to affluent consumers, is our largest segment and its earnings declined by 25% to end at R955m for the year. The segment's result was affected by a few unusual items including a reinsurance corrections balance (R181m) and by increased spending on technology aimed at improving intermediary and client experiences (R70m). We also took the decision to treat a negative spread earned on a particular block of guaranteed endowments as part of core earnings whereas previously the negative impact was considered as an investment variance (R106m impact on core earnings).

Our retail insurance business targeting lower income consumers, **Metropolitan Retail**, had a disappointing year with earnings declining by 12% to R582m. The weakness in the real economy is particularly visible in Metropolitan Retail's premium collection rates, which have deteriorated meaningfully over the past two years. We are taking a number of steps to improve the quality of our policy book, including improvements to the professionalism of the agency force interacting with consumers in this market segment.

Momentum Corporate, who provide insurance, asset management, general insurance, and administration services to employers, had a strong year with earnings growing 8% to R903m. Momentum Corporate is the leading provider of temporary and permanent disability products in the South African market and has thus been significantly affected by the soft underwriting cycle in that market segment over the past three years. The business was successful in taking corrective action during F2018 on these product lines and this had a major impact on the improvement in profitability. Guardrisk, our specialist insurance business, also showed strong profit growth.

Profits from our **International** operations increased substantially with the decision to exit certain frontier markets having a positive impact on the bottom line. The operations in Southern Africa remain highly profitable despite some weakness in persistency in Namibia. Our business in Ghana is worthy of a particular mention with earnings well up on the prior year.

Investment in **New Initiatives** increased substantially with India being the largest expense in the year (R217m vs R148m in the previous year). Operationally the India business (a joint venture with Aditya Birla Capital) continues to deliver against business plans. Other initiatives that we have classified into this category include aYo (a joint venture with MTN providing mobile insurance in rest of Africa), and MMI Lending (a joint venture with African Bank).

The **Shareholder** segment represents the investment income earned on our shareholder funds less the head office costs not charged out to segments. Investment income declined on the back of reduction in investable assets (due to capital invested in new ventures) and a lower yield earned on the investments. Furthermore, finance cost increased due to additional subordinated debt issued in the year. Head office costs were up substantially year-on-year due to costs related to various changes in senior leadership positions, and due to high consulting fees incurred during the year.

Group results – new business

Our life insurance new business (as measured by the present value of new business premium (PVNBP)) for F2018 was up 1% year-on-year. Best growth was seen in products offering a high level of security (e.g. our guaranteed rate products) which reflects the risk-averse nature of consumers at present.

PVNBP[1], Rm	F2018	F2017	Year-on-year (%)
Momentum Retail	23 531	22 774	3
Metropolitan Retail	5 091	5 164	(1)
Momentum Corporate	11 218	11 121	1
International	2 337	2 536	(8)
Total	**42 177**	**41 595**	**1**

[1] Present value of future premiums in respect of new business net of reinsurance, using the risk discount rate and other valuation assumptions.

Momentum Retail experienced strong sales of its Guaranteed Return Option endowment product with consumers showing strong preference for the fixed return nature of this product. Conversely, sales of market-linked products, such as living annuities, were lower than the previous year. Recurring premium new business also showed quite distinct trends with decent demand for savings products but weaker sales of protection (life and disability) products. This mix change also has a negative impact on new business margins as discussed on the next page.

Metropolitan Retail new business volumes fell marginally year-on-year. The decline was affected by strengthening of the persistency assumptions on funeral cover products. It should be noted that the PVNBP measures the present value of all premiums expected from a contract, and as such, the persistency assumptions have an impact on the measure. The one area that showed pleasing volumes at Metropolitan Retail was single premium investment and retirement products.

Momentum Corporate sales were effectively unchanged year-on-year, but the business remains a very significant player in terms of employee benefits market share. The past year was characterised by ongoing strong demand for our umbrella fund solution (FundsAtWork) whereas we remained quite disciplined, and thus walked away from some deals, in the large schemes risk market. The institutional annuity market showed limited activity in F2018, but we believe that we are well positioned to secure new business when pensioner outsourcing activity picks up again.

International volumes declined by 8%. Sales volumes were significantly lower than in the prior year in both Namibia and in Lesotho. Namibia sales were affected by lower sales of retail risk business whereas Lesotho was not able to repeat the unusually high corporate new business flows in F2018.

Value of new business (VNB) measures the present value of expected profits on contracts issued during the year. VNB declined by 45% relative to the previous year. A common feature in many of the segments was that growth in acquisition expenses was higher than the observed volume growth – this negative operational gearing has put pressure on profit margins. Expected profits on business sold during F2018 was 0.7% of expected premium income, down from 1.3% in the previous year. We would expect new business margins to be in excess of 1.0% in most years and as such F2018 delivered a highly disappointing VNB.

VNB, Rm	F2018	F2017	Year-on-year (%)
Momentum Retail	98	228	(57)
Metropolitan Retail	84	178	(53)
Momentum Corporate	124	68	82
International	(5)	73	< (100)
Total	**301**	**547**	**(45)**
% of PVNBP	0.7	1.3	

New business margin declined from 1.0% to 0.4% for **Momentum Retail**. One of the major reasons for the decline in new business margin was the new (reduced) pricing on our Wealth platform. The new guaranteed rate solution, which is selling well since its introduction, also has lower margins than the product it has replaced. Finally, the increase in renewal and initial expenses also impacted VNB negatively.

The weak early duration persistency recently experienced on funeral plans is the main contributor to the lower VNB at **Metropolitan Retail**. The weak persistency experience is particularly evident on business where premiums are collected via bank debit order rather than via employer payroll deductions. The new actuarial basis now allows for this recent experience and thus ascribes lower VNB to funeral plan sales. The current 1.6% margin for Metropolitan Retail is significantly lower than what we believe to be a sustainable long-term margin for this segment.

Momentum Corporate was the only area where margins improved year-on-year (from 0.6% to 1.1% of premiums). This improvement was driven by increased pricing discipline on risk business written during the year, ongoing demand for our umbrella fund offering (FundsAtWork), and the knock-on benefit on expected expenses from tight expense management achieved by Momentum Corporate during F2018.

International posted a negative VNB for the year. A common feature across many of the countries has been significant increases in acquisition costs. In some of the countries this relates to more accurate attribution of expenses between acquisition expenses and maintenance expenses. Namibia has been particularly affected by the changes to acquisition expenses. Lesotho was the one country where VNB did improve during the year, partially due to a change in business mix towards credit life business.

For our non-covered new business, we consider net client cash flows (NCCF) to be the key volume metric for both the LISP platform (Momentum Wealth) and for the retail unit trust business (Momentum Collective Investments).

NCCF, Rm	F2018	F2017	Year-on-year (%)
Wealth – local platform	(1 943)	(2 091)	7
Wealth – offshore platform	380	510	(25)
Unit Trusts – Momentum	(1 868)	(1 618)	(15)

Assets on our local Wealth management platform grew by 5% during the year from R129bn to R135bn. NCCF on the platform was an outflow of R1.9bn and in line with the experience of the previous year (R2.1bn). The negative flows are a direct result of new business volumes that have been sluggish over the past couple of years as retention rates on the book is in line with expectations and comparable to industry norms. Assets on the Guernsey domiciled Wealth management platform have grown 12% from R26bn to R29bn during the year under review due to positive NCCF of R380m during the year, as well as good investment performance.

Our local collective investment scheme (CIS) range have shown an increase in assets of 12% from R73bn to R82bn. Fee bearing portfolios showed a NCCF of R1.9bn in the year compared to R1.6bn the year before. The composition of the outflow has changed significantly during the year with the majority of net outflows recorded on cash and cash-like mandates while the multi and single asset portfolios outflows improved significantly. A large part of the current year was spent streamlining our CIS offering and positioning our funds in terms of our Outcomes-based Investment philosophy. This included the establishment of new funds, the amalgamation of some, and the discontinuation of others.

Group results – embedded value

The group embedded value ended at R25.43 per share on 30 June 2018. This represents a return on embedded value (ROEV) of -1,1% for the year. This can be attributed to 7% return on the covered operations (i.e. on mature life insurance operations) and -35% on other operations. The weak return on non-covered operations is partially because of a move to a more conservative valuation approach on these operations.

Life insurance ROEV was below normal due to a R975m negative basis adjustment for updated actuarial assumptions. The largest adjustment of the EV basis was in respect of expense assumptions where we have extrapolated the recent high level of expenses into the future. As and when we achieve our planned expense management benefits we will revisit the expense assumptions used in the EV calculation. Termination assumptions were also strengthened. The largest impact was in respect of level premium Myriad contracts where we now assume minimal terminations at older ages which reduces expected profit. The final major assumption change was to asset allocation assumed on reserves held in respect of Myriad policies. We plan to improve the asset-liability matching on Myriad, and the new asset allocation assumption reflects this. The net effect was that we have moved to a lower assumed investment return on the reserve which has a negative impact on EV for the affected contracts.

On non-covered operations we received extensive feedback from shareholders that the previous valuation method (a long-term discounted cash flow (DCF) approach) has resulted in valuations that are inconsistent with current earnings from these businesses. We have thus decided to change the valuation approach to one where near-term earnings have greater impact. We also decided to moderate the assumptions around how quickly loss-making operations can be fixed to a break-even situation. These changes reduced EV by more than R1bn.

Embedded Value, Rm	F2018	F2017
Momentum Retail – covered	15 530	15 716
Metropolitan Retail – covered	6 175	6 007
Momentum Corporate – covered	6 774	6 409
International – covered	3 833	3 913
Shareholders – covered	428	2 020
Total covered EV	**32 740**	**34 065**
Momentum Retail – non-covered	963	2 107
Metropolitan Retail – non-covered	-	(78)
Momentum Corporate – non-covered	5 406	5 747
International – non-covered	750	60
Shareholders – non-covered	(258)	622
TOTAL GROUP EMBEDDED VALUE	**39 601**	**42 523**
Embedded value per share	R25.43	R26.51

Capital management

The capital adequacy ratio (CAR) cover for our primary life insurance business, MMI Group Limited (MMIGL), ended F2018 at 2.7 times the statutory minimum capital level (2.7 times in F2017). The actual required statutory capital was reasonably stable year-on-year. We will start to publish our capital position on the SAM basis from F2019 onwards. Internally we already manage the organisation based on SAM ratios in our capital planning. We are comfortable with our SAM capital position.

During F2018, Moody's Investor Services confirmed MMIGL's Insurer Financial Strength (IFS) international scale rating of Baa2 (national rating of Aaa.za) and Guardrisk's IFS rating of Baa3- (national scale rating of Aaa.za) with a stable outlook.

On 7 March 2018, MMI announced the Board-approved R2 000 million share buy-back programme as part of its interim results announcement for the 6 months ending 31 December 2017. On the same day, MMI commenced with the programme. Up to 30 June 2018, MMI repurchased 47 million shares at an average share price of R20.66 for a total cumulative consideration of R971 million (excluding trading costs). The repurchase programme has a positive impact on embedded value per share because we are acquiring the shares at below embedded value.

Changes in financial planning and analysis

Significant changes in leadership has a large effect on the way we operate as an organisation. Hillie Meyer's CEO report provides insight into our updated operational priorities, but it is also important for shareholders to know that from a financial decision-making perspective we are now placing greater focus on shorter-term profitability metrics, such as IFRS earnings, to compliment longer-term value metrics, such as EV. Note that we are not ignoring long-term value as measured by EV, but we are arguing that we need to correct the balance between short-term results and longer-term initiatives. The future outcome of this recalibration should be a lower percentage of earnings being invested in new initiatives compared to what is currently the case for the group. We believe that in the longer term the group should not be investing more than 10% of earnings from mature operations into New Initiatives.

In F2019 we will adopt normalised headline earnings as our primary earnings measure. This earnings number will fully account for changes to actuarial reserves, for the impact of investment markets, and will have a significantly more robust policy around treatment of non-recurring items. Importantly, the measure is more comparable to the earnings numbers published by our peers than our current core headline earnings measure.

Internally we have also started a process to report profitability at a more granular level. This enables us to have income statements for all our major product lines and distribution channels. The group balanced scorecard process has also been rolled out to a more granular level than before. Both these changes enable us to monitor and analyse value creation and performance in more detail, and more accurately, than in the past. This in turn has made it possible to roll out our new incentive methodology that differentiates more between business units based on delivery.

As a large organisation we are continuously dealing with capital allocation decisions. We have formalised various processes around capital allocation discipline and we have invited a wider range of senior executives to be involved in those decisions. Differentiated processes that can deal with the distinctions required to fund and monitor start-up ventures versus investments into mature well-established businesses have been designed. Post-investment monitoring to enable us to take corrective action faster has improved.

A decision has been taken to invest time and resources to improve our financial forecasting and modelling capabilities. This enables us to have a clearer understanding of how revenues and earnings should flow from different components of our organisation and helps us with multi-year expense planning and is the starting point towards real-time rolling forecasts to replace the cumbersome annual budgeting process. The improved revenue forecasting is also enabling the group to have more constructive expense efficiency discussions in various segment areas that are operating in low growth market segments.

Outlook

The operating environment in South Africa and in Southern Africa remains challenging. We continue to focus on maintaining tight control on costs and on new investments while ensuring that our clients see continuous improvement in their client experience and that we are delivering benefits as promised at the point of sale. We will emerge as a leaner and more client-orientated business as the economy eventually starts to recover. We have installed an increasing respect for shareholder capital across the group, and we believe that over the next three years, even in a modest economic environment, we can grow normalised headline earnings to at least R3.6bn, but with a more ambitious target of R4.0bn, by F2021.

RISTO KETOLA
Group Finance Director

Five-year financial review

	June 2018 Rm	June 2017 Rm	June 2016 Rm	June 2015[2] Rm	Pre client-centric restructure June 2014[1] Rm
Net insurance premiums	**65 305**	62 935	63 112	65 070	56 242
Momentum Retail	**25 012**	24 740	25 634	24 676	29 134
Metropolitan Retail	**7 368**	6 898	6 816	6 910	6 820
Momentum Corporate	**28 562**	27 167	26 608	29 921	17 390
International	**4 363**	4 130	4 054	3 563	2 898
New business premiums – present value of premiums (PVP)	**42 177**	41 595	44 090	50 396	41 739
Momentum Retail	**23 531**	22 774	23 468	25 458	20 434
Metropolitan Retail	**5 091**	5 164	4 936	5 091	4 948
Momentum Corporate	**11 218**	11 121	13 232	17 683	14 491
International	**2 337**	2 536	2 454	2 164	1 866
Value of new business	**301**	547	712	954	779
Momentum Retail	**98**	228	251	276	240
Metropolitan Retail	**84**	178	191	185	236
Momentum Corporate	**124**	68	199	427	254
International	**(5)**	73	71	66	49
Diluted core headline earnings	**2 809**	3 208	3 206	3 836	3 621
Momentum Retail	**920**	1 271	1 493	1 756	1 569
Metropolitan Retail	**570**	660	700	604	587
Momentum Corporate	**903**	835	680	861	687
International	**(48)**	(166)	(156)	152	122
Shareholder Capital	**464**	608	489	463	656
Earnings attributable to owners of the parent (Rm)	**1 369**	1 536	2 142	2 857	3 197
Earnings per share attributable to owners of the parent (cents)	**88.2**	98.4	137.6	183.5	205.5
Diluted headline earnings per share attributable to owners of the parent (cents)	**92.9**	117.7	132.2	181.4	204.0
Diluted core headline earnings per share attributable to owners of the parent (cents)	**176.0**	200.0	199.9	239.2	225.7
Dividend per share (cents)	**-**	157	157	155	142
Diluted embedded value (Rm)	**39 601**	42 523	42 989	40 330	39 675
Return on embedded value (%) (annualised) – internal rate of return	**(1.1)%**	4.7%	12.8%	9.6%	19.0%
Price/diluted core headline earnings ratio	**10.0**	10.1	11.3	12.6	11.6
Dividend yield % (dividend on listed shares)	**-**	7.8%	6.9%	5.1%	5.4%
Share price – last sale of period (cents per share)	**1 767**	2 024	2 264	3 015	2 625

[1] June 2014 has not been restated and is included as it was prior to the client-centric restructure.
[2] June 2015 has been restated and includes the changes made as part of the client-centric model introduced in July 2015.

Momentum Retail

Momentum has a proud history of being an innovative client-centric financial services provider servicing the middle and upper income market. Having lost market share, the current focus has been to reset the business so that we can rebuild its strong legacy and grow from this base. A new management team and structure have given new energy to this rejuvenation.

The Momentum Retail product range spans all major insurance lines (across life, disability, health, motor, property and all-risks insurance) and a wide range of savings and investment products which has been extended to a lending capability in partnership with African Bank. A key focus is to re-establish the core investment and insurance risk product brands as leaders in the industry and particularly within channels.

Our distribution capability is roughly split equally between our own agency force and independent financial advisers (IFAs). It is critical that we differentiate our ability to own the financial wellness advice conversation with clients through our agency force and enhance the distribution of our products through the independent channels. In recognition of this, we have structured the business to service these capabilities accordingly. There is now greater accountability of management to adviser outcomes and a focus on building the appropriate support for the different needs.

A key differentiator is our Multiply programme that incentivises clients to achieve their financial goals and aspirations. The scope of the discounts and partner rewards is a function of their Multiply status, which is in turn driven by positive physical (such as exercise) and financial (such as seeing a financial planner) behaviours by the client. These higher levels of client engagement should lead to superior retention and underwriting experience. There has been a greater focus on improving client service to existing Multiply clients and building brand awareness to other product holders.

Levels of client experience and client engagement have been critical to the success of Momentum Retail. A focus will be on improving basic service metrics, with the better alignment of service teams with product houses and there has been a restructuring of call centres to reduce complexity and increase product and client focus.

Our Outcomes-based Investment (OBI) approach is focused on delivering on the client's need for the appropriate level of investment risk. This is gaining greater traction and is starting to be copied by competitors. The focus will be to gain greater support on our platform for these capabilities and extending these to external platforms and independent financial advisers (IFAs).

However, our primary challenge has been an expense base that has not been able to support the reduced business volumes. The alignment of distribution and advice support is in recognition of this. Greater focus will be on building processes and systems to optimise our service and distribution capabilities with expected business volumes. We aim to establish a new service strategy (including views on training, technology, business processes and remuneration) to surprise and delight clients to win trust.

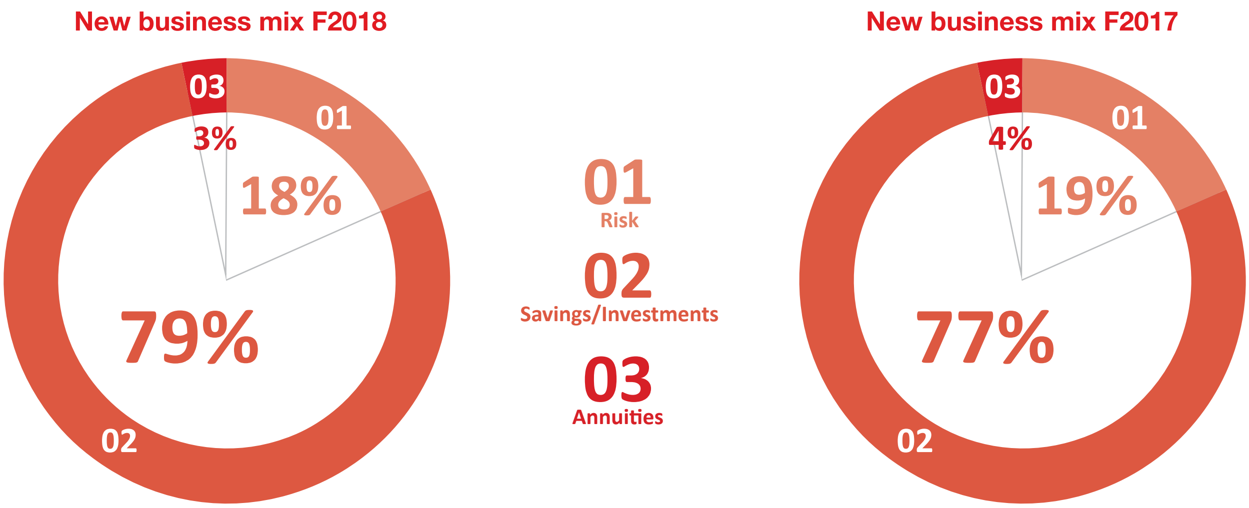
1.1 MILLION clients who hold two million separate products.

500 000 POLICIES in issue for both retirement savings and life insurance, our most popular product solution.

FASTEST GROWING PRODUCT SEGMENTS:

- Open medical scheme (**Momentum Health**).
- Motor insurance (**Momentum Short-term Insurance**).

OVER 1 000 agents and advisers operating under the Momentum brand.



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

Financial performance

As shown in the table on the next page, the bulk of our profits stem from our core life insurance operations. We are making significant investments to improve the new business process for clients and intermediaries, which should have a positive impact on future sales volumes. We also see an opportunity to increase our market share in the investments and savings space and to improve the business mix and margin of assets under administration.

The additional budgeted expenditure to improve client experience and grow our sales force put pressure on earnings during the year. These impacts were partly offset by an improvement in the underwriting experience, specifically Myriad mortality experience, and improved termination experience. The muted 2017 investment market performance has impacted earnings in F2018 due to the lower average asset base on which fees are earned. However, sales and retention were also disappointing. The combined effect of a slight reduction in revenue and an increase in expenses resulted in a 25% decrease in profits on the covered business across all lines of business.

Our focus over the coming years is to leverage the benefits that accrue from the increased service and distribution focus in F2018 and to continue these improvements while ensuring we grow revenue by more than expenses.

"Other life products" is mainly our Legacy business. The release of discretionary margins (also included in this line) continues to decrease as the book is running off but its impact on the broader business will start to decrease. The muted investment market performance in F2017 was a reason for the decrease in Legacy earnings being larger than expected. The increased cost of the loyalty bonus on Investo is also putting a strain on earnings and this is expected to continue for the next couple of years.

The non-covered Investments and Savings earnings relate largely to our Momentum-branded unit trust operations and the Momentum Wealth platform earnings. Momentum Securities also reports as part of Momentum Retail, although its contribution remains small. The earnings of Investments and Savings have declined due to the closure of Metropolitan Collective Investments, weak asset growth, which in turn is a function of muted investment markets performance, and modest net client outflows in F2018.

Health scheme administration refers to the Momentum Health open scheme, which covered over 165 000 families as of June 2018. This represents strong net growth of more than 7 500 families in F2018, along with a narrowing of operating losses. However, the scheme is still some way from operating at full scale, particularly in respect of distribution costs.

Our short-term insurance business, Momentum Short-term Insurance, grew the number of policyholders from 55 000 in June 2017 to 60 000 in June 2018 despite terminating a large number of unprofitable policies. Our short-term insurance and health business both operate in a somewhat static environment; as such, we are pleased with the strong growth rates achieved by both operations.

With a return to profit in recent months, Momentum Short-term Insurance remains on track to achieve its financial objective of reaching a cash-flow positive position in F2019. Loss ratios are reducing as the book matures. The claims ratio for F2018 was 67% (F2017: 73%), with each subsequent year of policies generating an improved claims experience.

Core headline earnings (Rm)	F2018	F2017	Year-on-year change (%)
Pure risk products (Myriad)	310	321	(3)
Investment and annuity products	277	422	(34)
Other life products (including Legacy)	509	724	(30)
Life profits	**1 096**	**1 467**	**(25)**
Investment and savings	1	61	(98)
Health scheme administration	19	(29)	> 100
Short-term insurance	(56)	(162)	65
Client engagement solutions	(140)	(66)	< (100)
Momentum Retail core earnings	**920**	**1 271**	**(28)**

Momentum Retail's share of the loss incurred in Client Engagement Solutions is R140 million. The loss mainly reflects investments into capabilities to differentiate Momentum and its engagement with clients from its competitors. We are particularly excited by opportunities presented by enhanced data analytics, money management solutions and significant improvements in how we leverage technology to enhance both the client and adviser experience.

Embedded value earnings (as shown in the table below) were impacted by basis changes to the valuation of the predominantly pure risk products. We have derisked the portfolio backing the non-profit risk liabilities (part of Myriad), which results in a lower future expected return on these assets. This change will reduce the expected volatility due to a reduction in exposure to investment variances, which should not be a key feature of this type of product. This will also lead to reduced capital requirements under the new Solvency Assessment and Management (SAM) environment (effective from 1 July 2018).

An increase in administration expenses per policy due to lower business volumes contributed negatively to embedded value profit. Our focus over the coming years will be to increase revenue (including the number of the in-force policies) by more than increases in expenses and below inflation.

In order to increase the competitiveness of the Wealth product range the platform fees for this business will be reduced, effective date March 2019. We have allowed for this expected decrease in fees in the Value in Force (VIF) for the Wealth products. The longer-term expectation is that this will increase new business flows as well as reduce outflows which has been a problem of late. Current new business is written on the new reduced fee structure and the lower margin has impacted the value of new business.

New business profit was impacted by the basis changes, Wealth repricing and changes to the business mix. While new business volumes increased marginally, a greater proportion of lower margin products (single premium

Embedded value (EV) profit	F2018	F2017	Year-on-year (%)
New business profit	98	228	(57)
Unwind of discount rate	1 344	1 465	(8)
Experience variance	(76)	-	< (100)
Assumption changes	(1 076)	537	< (100)
Operating EV profit	**290**	**2 230**	**(87)**
Investment income on net worth	226	269	(16)
Investment variance	(89)	(932)	90
Economic assumption changes	33	(54)	> 100
Covered EV profit	**460**	**1 513**	**(70)**
Non-covered earnings	(1 410)	(479)	< (100)
Embedded value profit	**(950)**	**1 034**	**< (100)**

investments) resulted in the overall comparative profit being negatively impacted. The decrease in non-covered earnings is mainly ascribed to a new methodology to determine non-covered valuations, which resulted in the downward adjustments in the valuation of some businesses across the group. In Momentum Retail, some of the asset management businesses and client engagement solutions were affected most.

Looking ahead

The focus is to grow our distribution and improve client engagement to enhance sales volumes and improve retention. We will continue to support the independent and agent/secured channels, but recognise their different requirements and have restructured the support of these channels accordingly. More management time has, and will be spent, on the channels to improve relationships and levels of support.

In the shorter term we have streamlined and aligned client service areas to the core product lines. In the longer term we will look to further streamline business processes to remove unnecessary duplication and delays. This will further align our servicing and support models for future anticipated business volumes. We will also increase our focus on financial planner development and training to improve productivity and client outcomes.

In addition to changes to the servicing and distribution channel we are introducing new value-added solutions and services in the coming year, including:

- Money Management – with a digital transactional banking capability, personal financial tools and an app.
- Momentum Short-term Insurance – more functionality in the Safe Dayz™ telematics offering, focused on improved customer engagement. We also intend to provide clients and intermediaries with an online quoting capability for new business.
- Multiply – a focus on brand building and service enhancements to further strengthen its position and a reduction on the product profitability gap.
- Investments – greater support of Outcomes-based Investing in the channels, with a need to more strongly integrate this into the advice process and expand our institutional market footprint.
- Legacy – need to upgrade the savings products and better leverage these capabilities in our Africa business.
- Insurance – further enhancements to our flagship life insurance product Myriad to differentiate itself in the market through focus on claims and service differentiation.

While the earnings performance is disappointing, we are encouraged by the positive impacts a number of changes are starting to have within the business. The benefits of these interventions will take longer to manifest themselves in our results. We remain confident in our ability to not only deliver value to our clients but to shareholders too.

Metropolitan Retail

Metropolitan is a warm, intuitive and personal emerging market-focused brand centered on the ideas of collective achievement. In servicing its market for over a century, Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments offering advice and personalised, simple product solutions to help plan for and achieve financial life goals.

Central to our culture and brand promise is ensuring that everything we do is based on our deep quantitative and qualitative understanding of our clients' context and needs. We are expanding and diversifying data-driven solutions to support our clients when and where they need us most. For example, with indirect links to various data sources such as Home Affairs, we are able to pay funeral claims almost instantaneously as part of our added value proposition within our funeral solution.

Metropolitan has been placed first for three years in a row in the South African Consumer Satisfaction Index (SAcsi). Apart from our overall top-ranking position, we also achieved first place in the categories of perceived value, customer loyalty, and the net promoter score.

We also scored highest in the industry in each of the seven Treating Customers Fairly outcomes, which are listed below:

- The fair treatment of customers is central to the brand's culture.
- The brand offers products/services that address your needs.
- The brand provides you with transparent and easy to understand information.
- The brand provides you with advice that is suitable to your circumstances.
- The brand delivers products/services as they led you to expect.
- The brand makes it easy to change providers, complain, claim or consider another brand.
- The brand treats you with respect and there is an open win-win relationship.

Metropolitan Retail has a historical bias in serving public servants (such as teachers, nurses, police and army) but our success in expanding market access is giving us greater traction in the private sector. Our wide branch footprint, worksite presence and client-focused culture ensures that our clients can access our people and products easily, both for advice and ongoing service. At present, more than 80% of our clients hold only one Metropolitan product, making improved cross-sell a priority for the business.

Almost 80% of our business is secured through our own tied-agent channels. We have recently rolled out a number of modernised branches and will further invigorate our branch sales through additional refurbishments and suitably located points of presence.

Our African Bank bancassurance partnership provides us with access to additional clients through an extended co-branded African Bank branch network. African Bank will also be the provider of an important lending product in our client value proposition.

ALMOST

2.2 MILLION active clients across South Africa and across all industries.

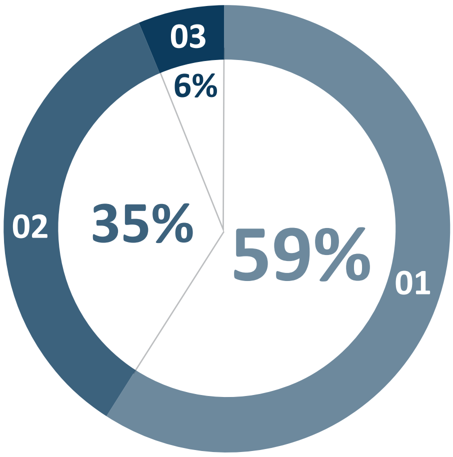
CORE SOLUTIONS INCLUDE:

- Unique personalised funeral offering.
- Savings for life goals and income protection in retirement through our capital preservation and annuities range.

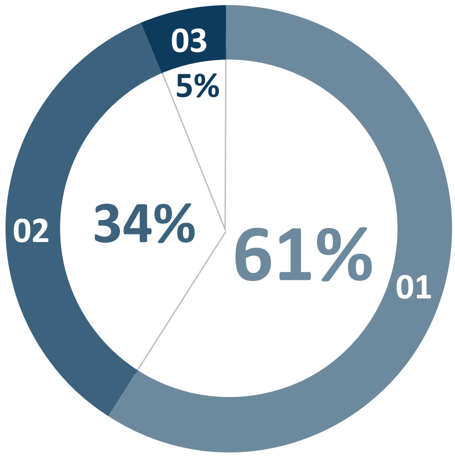
ADVISER FORCE OF MORE THAN

4 000 **field agents, telesales agents and supporting brokers, operating across more than 110 unique points of presence throughout South Africa.**

New business mix F2018



New business mix F2017



The figures above show the split of sales volume by product segment which has shown a slight increase in annuity and savings products over the year.

A key feature of our approach to sales and distribution is our Worksite Marketing offering which is a strategic lever that provides ongoing access to the key target market of employed clients. We are working to acquire new worksites, diversify our sector focus to prevent concentration risk, and provide advisers with leads through ongoing worksite activation campaigns. In F2018, we opened 161 new worksites with 146 new linked Stop Order Agencies, 1 987 of 3 802 advisers (52%) who have less than 12 months tenure being allocated to new or existing worksites.

We have increased productivity through more focus in our channel over recent months, with average production now above two policies per adviser per week. As this measure includes a large proportion of new-to-industry advisers, we expect average productivity to continue to increase as the trainee advisers progress into more senior categories. More experienced advisers easily produce between six to eight policies per week.

To overcome the challenge of scaling up the number of experienced and productive advisers, we are implementing a number of initiatives to professionalise the adviser force in F2019 in tandem with development through our training academy. We expect these to yield greater productivity going forward.

Our unique digital client value proposition is centred on financial life goal planning instead of traditional product push, which is a key strategy to differentiate Metropolitan in a highly regulated and commoditised emerging market. Our processes and systems are transitioning onto one integrated platform that will facilitate client engagement, advice, product acquisition, ongoing service and claims across all channels, whether face-to-face, through contact centres or on digital devices. Our focus will be to create personalised, sustainable, long-term relationships in each client interaction. We are removing paper and unnecessary client friction in modernising our processes.

Our first fully digital Dignified Funeral life goal solution was launched during March 2018. It is a full straight-through-processing paperless engagement for advice and the product solution, where clients build and plan their funeral solutions around their unique needs – a first in the insurance emerging market segment.

Our digital focus also extends to enabling our channels, with a number of tools rolled out to support advisers:

- Our MetHub channel portal gives advisers access to all the business tools and processes they need to succeed, including connectivity and e-learning skills growth. Business Intelligence insights embedded in MetHub provide branch managers with a full activity management platform with the necessary tools and information to coach, mentor and guide their team to improve performance.
- MyMarkets Opportunities, launched in February, is a digital tool to enable our market opportunity selection as well as better manage and measure our adviser placement in worksites.
- We have completed the roll-out of more than 1 700 laptops to senior category advisers for them to access and use their new digital toolset.

Financial performance

Effectively all of Metropolitan Retail's earnings come from life insurance activities (underwriting death and disability risk), and from managing client assets held through endowment policies and personal pension policies (known as retirement annuities).

While we have grown sales in a tough economic environment, the business has seen a drag on year-on-year earnings due to large investments and increased expenses.

The loss shown in “Other” earnings below reflects our share of costs around the Multiply offering and the African Bank Lending solutions.

We believe that this joint venture recently launched with African Bank will result in growing earnings (especially the lending non-covered earnings) over the coming few years.

Positive mortality and investment experience persists, but this was offset by poorer persistency experience year-on-year. The deterioration year-on-year can be ascribed to business written by advisers subsequently lapsing as well as operational losses due to system administration issues. The persistency losses observed in the last two financial years can mostly be ascribed to early duration persistency. A basis change was implemented to remove the negative variances, which has also dragged the value of new business down significantly. A number of focused management actions are in play to improve this persistency experience.

A large portion of earnings is still derived from our Legacy book, which includes earnings from most savings products, universal life products and conventional with-profit business.

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Pure risk products	214	251	(15)
Investment and annuity products	122	124	(2)
Other life products (including Legacy)	275	310	(11)
Life profits	**611**	**685**	**(11)**
Other	(41)	(25)	(64)
Metropolitan Retail core earnings	**570**	**660**	**(14)**

The large investments into the African Bank Lending solutions, laptops for senior category advisers and investments into our branch network, along with a change to the way we capitalise IT expenses, caused a significant impact on our expenses and therefore earnings.

EV profits as shown below are down year-on-year, driven primarily by expense assumption changes. Expense assumption changes were imposed as a result of a change to overhead expense allocations between segments. This was partially offset by better investment experience.

Embedded value (EV) profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	84	178	(53)
Unwind of discount rate	474	578	(18)
Experience variance	(57)	20	< (100)
Assumption changes	(273)	184	< (100)
Operating EV profit	**228**	**960**	**(76)**
Investment income on net worth	115	157	(27)
Investment variance	135	(193)	> 100
Economic assumption changes	76	(14)	> 100
Covered EV profit	**554**	**910**	**(39)**
Non-covered earnings	(40)	6	< (100)
Embedded value profit	**514**	**916**	**(44)**

Value of new business reduced materially as a result of the strengthening of the lapse basis following experience losses observed.

The unwind of discount rate line item has decreased due to the adoption of yield curves for discounting embedded value cashflows.

The experience variance reduced year-on-year supported by positive mortality experience being offset by the poor persistency experience mentioned above. A large part of the deterioration is once-off in nature and is expected to be reversed in the near reporting periods.

The experience variance line also includes the impairment of an administration system asset. Investment income on shareholder funds is stable and reflects both the high pay-out ratio and low-risk investment strategy deployed. The increase in investment variances reflects the positive effect of equity markets on current and future fee income, whereas the economic assumption change reflects the change in the yield curve. The non-covered line includes our share of the cost of the Multiply offering as well as the African Bank Lending solutions.

Looking ahead

We have made great strides in rebuilding our adviser force and increased productivity is now evident. We have also been able to fill all vacancies at a Provincial Management level, which will ensure better execution of the strategy. We have additional initiatives planned to further improve productivity. We expect to make significant investments in our branch infrastructure, which includes moving the branches closer to our clients. Many of our branches are in town centres rather than near residential areas, and we are looking to open branches in shopping malls and other venues that are more conveniently located for clients. We will be refurbishing branches that are already well located.

We are investing in training and management development to improve the efficiency of our branch managers and ensure they have the appropriate approach and requisite coaching skills to support new advisers. The quality of branch managers has a direct correlation on the likely success of new recruits and on the overall productivity of the advisers.

We will continue to build on the success of increased access to digital tools and enablers that have already been deployed for advisers. Our over 1 000 work sites are gaining traction and are a key market access strategy for Metropolitan to promote its solutions and where we have access to stop order facilities to collect premiums.

As seen in our initiatives for the coming year, our focus represents a shift from volumes (be that in sales force or opening new worksites) to a focus on productivity (in driving higher policy sales, improving the skills of our managers, better location of branches, and assessing productivity in each of our market access points). Our core focus is on enhancing our financial life goal planning advice business, by assisting clients to meet their planned goals and helping them manage unforeseen expenses.

Momentum Corporate

Momentum Corporate provides insurance, health, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market.

For Momentum Corporate, most of our new business by value is sourced through large specialist actuarial consultants and employee benefits brokers. However, our strong small and medium enterprise (SME) market share is mainly due to the support we get from smaller intermediaries, who also support our retail business. With continued support from our retail channels for our umbrella fund products, we will continue developing and implementing improvements to sustain our success in this area.

In terms of new business mix, it should be noted that large deals can skew sales figures significantly from year to year. For example, our annuity sales are currently running below historical averages, mainly due to limited activity in the pensioner outsourcing market. The trends could thus change quite materially over time.

Overall, we believe that our business is overweight in protection market share but underweight in investments and savings. Our annuity market share also tends to be strong during periods of high pensioner outsourcing activity which correlates to strong equity markets and high interest rates. The opportunity set for these outsourcings going forward is now predominantly in the state-owned entity space.

The figure on the next page shows the split of sales volumes by product segment (for covered business – i.e. business written on the life insurance licence).

Financial performance

Momentum Corporate's earnings are derived from a diverse range of activities, with material contributions to the segmental income statement from life insurance profits, short-term insurance, retirement fund administration and health scheme administration (see table on next page).

Life insurance profitability improved during the year, mainly due to improved disability underwriting profits as well as minimal expense growth. While improved, overall profitability on disability business remains below long-term expectations. Disability experience tends to be pro-cyclical with economic conditions; as such, the industry overall is struggling in this area. The re-pricing activity on the disability book is expected to further improve underwriting profitability into the next financial year. Investors should note that annuity profits (mainly spread profits) are also recognised as part of the life insurance profit line and these profits remain strong. Profits from our FundsAtWork umbrella range are also included in the life insurance profit line.

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

Health scheme administration refers to claims handling and other administrative services that we provide to large employer sponsored medical schemes. The largest client on our books is the government, where we manage

Provide services and solutions to more than 2.1 MILLION employees across all industry segments.

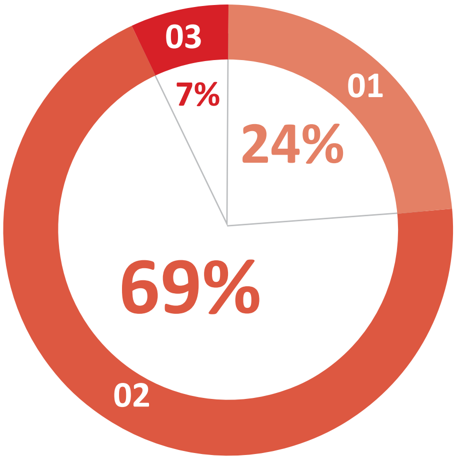
Provide and receive annual risk premiums in excess of R4.3 BILLION per year

Our umbrella fund product range (called FundsAtWork) is particularly successful in the SME segment, with more than:

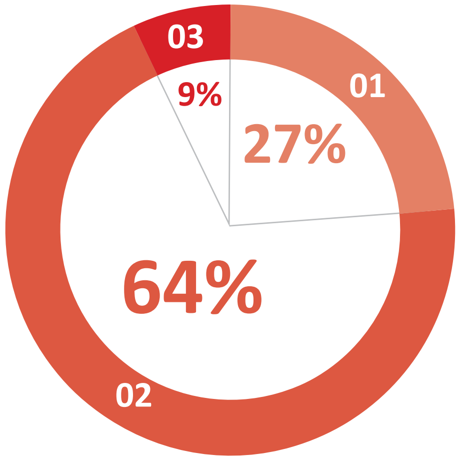
- 460 000 members from nearly 6 000 employers.
- R50 billion of assets under management.

Strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions.

New business mix F2018



New business mix F2017



medical scheme records for nearly 700 000 families. Profits have improved year-on-year to above 2016 levels following the rightsizing of the business in response to the loss of the Bankmed and Polmed schemes during 2015. Due to a broad-based black economic empowerment transaction entered into with a consortium consisting of Thebe Health Group, POPCRU Group of Companies and Validate for our Public Sector book, the effective interest in this book will be diluted to 51% in the coming year.

Property management refers to our 76% interest in the ERIS Property Group (Eris). Eris is active in property management, asset management and property development. Earnings in F2018 declined against the prior year, where this business benefited from some participation profits in property disposals.

Retirement fund administration refers to administration work we do for large stand-alone retirement funds that outsource administration of member and investment record keeping, member communications and other administrative tasks. We are a market leader in this field and one of a few players who are profitable in stand-alone administration. We have 40 stand-alone scheme clients representing more than 600 000 members on whose behalf we administer more than R240 billion of assets. In the past year we secured the administration contract for the Consolidated Retirement Fund for Local Government.

Investment management profits have stabilised during this financial year. Buoyed by client inflows, Aluwani Capital Partners posted its maiden profit. Active expense management within this entity provided further impetus in supporting this positive result.

During the course of the latter part of F2017 and in F2018, the business has been in the process of setting up a dedicated direct advisory capability. A new entity was established and branded Momentum Consultants and Actuaries (Pty) Ltd.

In terms of embedded value profits, new business profits continue to recover compared to the prior year. Our focus on quality of business leads to better margin on business written over the period, with the main contributors being schemes written at materially higher margin than the

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Life insurance	425	387	10
Short-term insurance	260	200	30
Health scheme administration	151	136	11
Property management	60	99	(39)
Retirement fund administration	(16)	18	< (100)
Investment management	31	20	55
Client engagement solutions	(8)	(25)	68
Corporate core earnings	**903**	**835**	**8**

Embedded value profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	124	68	82
Unwind of discount rate	600	595	1
Experience variance	(21)	(178)	88
Assumption Changes	624	(295)	> 100
Operating EV Profit	**1 327**	**190**	**> 100**
Investment income on net worth	129	145	(11)
Investment variance	(57)	(203)	72
Economic assumption changes	(103)	(103)	0
Covered EV profit	**1 296**	**29**	**> 100**
Non-covered earnings	(24)	786	< (100)
Embedded value profit	**1 272**	**815**	**56**

previous year as well as lower expense expectations going forward to support the running of this book of business. The group insurance market continues to see a correction of risk rates towards longer-term norms, but margins remain under some pressure. We have mostly completed rebuilding the relevant distribution teams to focus on the intermediated market and continue to focus on building our direct consulting business. The unwind of the discount rate line item has decreased due to the impact of additional group expenses being allocated to the business, which reduced the opening value of the in-force book.

We are pleased with improvements shown in experience profits due to slightly better morbidity and retrenchment experience as well as some positive expense variances. Investment income stayed relatively flat, whereas investment variances reflect the impact of poor performance in investment markets on fee income as well as the impact of the credit downgrade on the cost of capital. Economic assumption changes decreased substantially compared to the prior year due to the widening of the gap between salary inflation and the risk discount rate. We project premiums forward against salary inflation; hence, if the gap widens, the present value will be lower. The reduced non-covered earnings reflect the impact of the Health B-BBEE transaction, as well as sizeable disinvestments from the platform investments environment arising from the Anglo pensioner outsourcing.

Looking ahead

Underwriting profitability will remain a focus for management. We have been applying above-inflationary increases to close the gap between group disability premium rates and the current claims experience. We have a contractual right to renew almost all risk premiums annually, and recognise that premium rate increases must strike a balance between reflecting recent experience and projections for longer-term experience.

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

We continuously refine our product offering and service standards in our umbrella funds business to address the evolving needs of clients and to respond to changes in the regulatory and competitive landscape.

With its Outcomes-based Investment philosophy firmly bedded down, our investment management business is now on a solid footing with the appointment of Jeanette Cilliers (Marais) as the new CEO. The focus is now to grow the business to achieve its full potential.

We are targeting growth through all lines of our health business after bringing the various health businesses closer together as a single business to obtain a single market presence, scale of capabilities and to improve our client engagement.

We are focusing on improving our overall client experience and on better alignment of operations and servicing areas to our client needs. We recently launched our corporate rewards programme, Multiply for Corporates, to increase engagement with corporates and to encourage engagement at the employee level. This also serves to reward corporates for integrating their employee benefits with Momentum.

We continue on our journey of enabling our clients to achieve their financial goals and aspirations. Workplace Living Services remains a key digital initiative in this regard. Besides Smart Exits (for which we won a Gold Loeries award), we have also launched Smart Retirements, Smart Underwriting and are now embarking on the Smart Onboarding journey. Our MMI-wide Employee Financial Wellness initiative aims to solve for a broader set of financial needs of our corporate clients' employees through improved engagement and education at an employee and employer level.

International

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

Africa overview

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

We offer short-term insurance in Namibia, Kenya, Swaziland and Tanzania and asset management in Namibia. In our health administration business in Namibia, we have nearly 400 000 lives on our book, making us the biggest player in that market.

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

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

India overview

Aditya Birla Health Insurance (ABHI), a joint venture between MMI and the Aditya Birla Capital Group, was launched at the end of November 2016. The partnership brought together the best of both worlds with MMI bringing product, solutions and actuarial expertise, while Aditya Birla Capital contributed their strong brand and distribution capabilities. The result is a new health insurer that already covers more than a million lives, despite fiercely competitive market conditions.

The India health insurance market to date has been aggressively competing for consumers aged between 35 and 50, while ABHI has managed to expand the market with our market-first incentivised wellness and chronic care management offerings. The incentivised wellness model allows younger members to enjoy better value for money in health insurance, while the older generation (who was traditionally denied cover due to pre-existing conditions) benefits from our offering assisting them to manage their chronic conditions and thereby living an improved quality of life.

Retail health insurance business in India is much more profitable in India and the competition here is especially fierce. To be able to successfully compete in this sector of the market, a health insurer needs to have strong distribution capabilities. ABHI has therefore invested extensively in getting its agency force, bancassurance partnerships, corporate and broker support and digital channel up and running as quickly as possible. To date ABHI has recruited more than 15 000 agents and setup branches in more than 40 cities, while bancassurance and brokers extend this reach to more than 150.

Operates in 11 **African countries, India and the UK.**

In Africa, we focus on life insurance and health insurance products, as well as short-term insurance and asset management.

The Indian health insurance business has over 1 MILLION **lives on the books.**

We are in the process of refocusing our Africa operations and will reduce our presence in coming years.

WE HAVE A health insurance and Multiply offering in India.

In the UK our focus is on asset management.

Over **500 000** individual life insurance policies and around **600 000** lives in group life insurance in Africa.

Bancassurance partnerships are especially important here as they have nationwide footprints, strong and trusted brands and substantial customer bases. ABHI has already managed to tie up with seven bank partners, which includes HDFC, the largest private sector bank in India.

ABHI has also spent considerable resources in building digital capabilities, with two websites and four mobile applications launched to the market on its first day of operation. This has resulted in ABHI issuing more than 70% of policies digitally, compared to a market average of 30-40%. This results in better information accuracy, quicker service turnaround times and an all-round better client experience with our Net Promoter Score currently equal to 42%.

ABHI believes in the philosophy of making people adopt healthier lifestyles. The #JumpforHealth campaign shows its commitment to creating opportunities for people to be more active.

In 2017 ABHI introduced #JumpforHealth on World Health Day (7 April) – a unique initiative that not only helped inculcate a healthy habit of jumping, but also went a step further and pledged to donate one prosthetic leg to the under-privileged for every 10 000 jumps recorded. This inaugural #JumpForHealth received two million jumps in the three weeks of the campaign and ABHI donated 200 prosthetic legs as a result. People from all walks of life across the world took part in the initiative – from schoolchildren to celebrities, Miss India finalists to policemen, housewives to wedding guests, people at gyms and the Everest base camp. In April 2018 ABHI launched its second #JumpforHealth and vowed to make it even bigger and better. #JumpForHealth 2018 has ended with an astonishing 5.7 million jumps and ABHI will donate 570 prosthetic legs as a result.

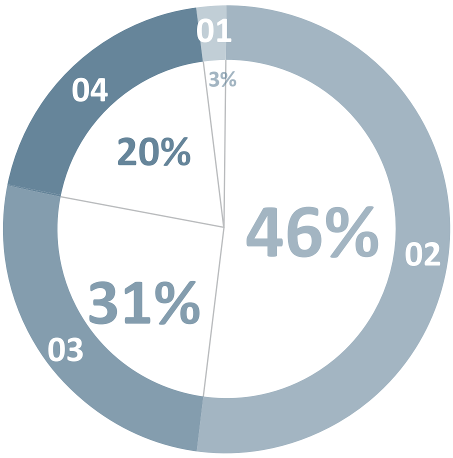
United Kingdom overview

Momentum Global Investment Management (MGIM), based in London, is focused on delivering outcomes-based investment solutions for clients, consistent with MMI's investment philosophy. MGIM forms an integral part of Momentum Investments and works in partnership with intermediaries in multiple jurisdictions to deliver on their clients' investment goals. Whilst the business continues to focus extensively on delivering offshore investment solutions to intermediaries and investors in South Africa, there is a strong growth focus to deliver solutions for, and to raise assets from, investors in global expatriate markets and the UK (focused on large corporate pension schemes and select retail financial advisers).

Having a business in London enables and facilitates access to a deep pool of world-leading investment talent, ideas and insights, and diversifies and grows MMI's investment-based revenue streams by creating access to international asset flows.

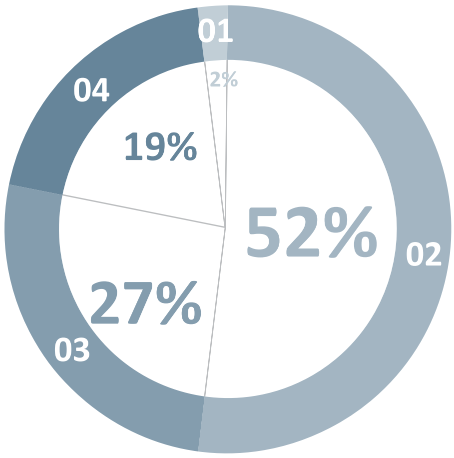
At 30 June 2018, MGIM managed over US$6 billion.

New business mix F2018



01 Swaziland
02 Namibia
03 Botswana
04 Lesotho

New business mix F2017



OUR SOLUTIONS

Long-term insurance

Health solutions

Health administration

Asset management

Pension fund administration

Short-term insurance

OUR SOLUTIONS IN THE UNITED KINGDOM

Investment solutions

Investment administration

Engagement solutions

Investment consulting

Financial performance

The Africa business showed an improvement against F2017. Life and health insurance activities accounted for most of our earnings, mainly from the mature Southern African markets. However, these earnings were offset by losses from some of the frontier markets. The health joint venture in India requires ongoing investment over the coming years to achieve scale and is only expected to be profitable in five years.

Covered life insurance earnings declined from the prior year mainly due to a poorer claims experience in Namibia in the retail segment. The non-covered life earnings, improved mainly driven by the West African businesses.

Ghana recorded a profit which was an improvement from the loss it recorded in F2017. Nigeria performance also improved mainly due to top line growth reducing its loss by 54% in F2018.

The health business improved its earnings substantially following a premium rate increase on under-performing schemes and elimination of the losses from our businesses that we are exiting. The short-term insurance business showed a reduced loss mostly due to improved performance in Kenya, Tanzania and Swaziland. This was partially offset by the losses at the newly acquired business in Namibia (Quanta). Our centre expenses, included in "Other operations" on the next page, decreased significantly during the year.

Core headline earnings (Rm)	F2018	F2017	Year-on-year (%)
Life insurance	122	92	33
Covered	191	203	(6)
Non-covered	(11)	(74)	85
aYo	(58)	(37)	(57)
Health scheme administration	(156)	(82)	(90)
Health (excluding India)	61	66	(8)
India	(217)	(148)	(47)
Short-term insurance	(3)	(80)	96
Client engagement solutions	(19)	(24)	21
Investment and savings	99	82	21
Other operations	(91)	(154)	41
MMI International core earnings	**(48)**	**(166)**	**71**

Our UK investment business showed good performance, mainly due to positive inflows into expatriate fund solutions, the recent success of the Momentum Africa Real Estate Fund (MAREF) as well as the UK investment consulting business turning profitable this year.

In terms of embedded value profits, new business profits decreased substantially, reflecting a basis change relating to using actual sales-related expenses instead of modelled expenses. We also saw an increase in initial expenses combined with muted new business volumes. The unwind of the discount rate line item increased following an update of the unwind calculation. Experience variance decreased year-on-year, mostly due to a lapse correction and higher expenses in Namibia, offset to some extent by positive mortality and morbidity experience in most countries.

EV earnings were significantly impacted by negative assumption changes; specifically renewal expense assumptions as a result of the decreased in-force business volumes in Namibia and a number of modelling changes. The most significant modelling changes include improvements to unit liability modelling in Namibia, writing down the EV of countries we are exiting and the derisk of the portfolio backing the non-profit risk liabilities (part of Myriad), similar to Momentum Retail.

Investment income on shareholder funds increased and reflects capital appreciation on some of the assets due to strong market conditions during the first half of the year. The decline in investment variances mainly reflects the strengthening of the rand versus most currencies, decreasing the investment in rand terms in most of the territories.

Non-covered earnings include the centre expenses. Centre expenses decreased substantially as a result of the progress made in exiting some African countries leading to lower support costs in SA. Losses in our new

Embedded value profit (Rm)	F2018	F2017	Year-on-year (%)
New business profit	(5)	73	< (100)
Unwind of discount rate	273	227	20
Experience variance	10	65	(85)
Assumption changes	(250)	(23)	< (100)
Operating EV profit	**28**	**342**	**(92)**
Investment income on net worth	112	63	78
Investment variance	(35)	(21)	(67)
Economic assumption changes	44	(29)	> 100
Covered EV profit	**149**	**355**	**(58)**
Non-covered earnings	(440)	(833)	47
Embedded value profit	**(291)**	**(478)**	**39**

initiatives and smaller life insurance operations are also included in this line item. In the previous year, we had large write downs of the valuations of some initiatives as well as negative earnings which did not recur in the current year. As mentioned above, we saw improved performance in the non-covered life, short-term and health businesses, also contributing to the improved non-covered earnings.

Looking ahead

Africa

As announced, we plan to exit a number of African countries to improve focus on our profitable businesses that have potential for long-term growth, with good progress being made. We are narrowing our geographic footprint to the Southern African region plus Ghana where we are already seeing significant growth potential.

We aim to maintain our strong market position in Namibia by leveraging our brand strength to improve persistency and cross-selling, improving efficiencies to support margin growth and maintaining our strong agency network. Also in Namibia, we have established a short-term insurance offering through the acquisition of Quanta Insurance during the year.

India

With the business maturing out of startup phase and into a fully-fledged market player, it remains critical that it continues to enjoy dedicated focus from MMI due to the scale of its investment in India.

We are happy to see that ABHI continues to grow strong and it plans to increase its product suite with travel insurance and new market firsts including cover for senior citizens and a savings product for out-of-hospital expenses. The multi-channel distribution strategy will continue to expand with further agent recruitment and fresh bancassurance tie-ups.

Fresh investment into digital capabilities to develop innovative initiatives like chatbots, auto-underwriting to increase real-time issuance and facilitating out of hospital expenses in a cashless manner also enjoy high priority.

United Kingdom

The focus will continue to be on delivering exceptional global investment solutions and outcomes in close collaboration with the broader Momentum Investments team for MMI's South African distribution partners and investors. In addition, we will build on the successes of MAREF with Eris, and will grow and develop the global investment solutions in support of our expanding expatriate distribution footprint further. The UK-based investment consulting team is expected to continue their growth path.

About our business

We exist to enable businesses and people from all walks of life to achieve their most important financial goals and life aspirations.

3

Our people

Our purpose

At MMI, we exist to enable businesses and people from all walks of life to achieve their financial goals and life aspirations. We are one team united by a shared purpose and a genuine desire to make a difference for our clients while generating sustainable profits.

Our culture

We strive to build a culture of performance that is based upon the values that define the way we work.

Our values of accountability, integrity, teamwork, diversity, innovation and excellence are brought to life in how we interact with our clients, colleagues and the communities in which we operate. We aim to have a positive impact on the communities we serve and meet their needs by leveraging the vast set of skills that our employees have to offer through our MMI Volunteers platform.

For MMI's people, we endeavour to create an environment where they feel valued and appreciated. Our comprehensive employee value proposition (EVP) focuses on their financial, emotional and physical needs, and creates an environment where employees can grow and develop as individuals and in teams.

As part of the EVP, our employees can participate in the offerings and benefits across MMI, to enable them to achieve their financial goals and life aspirations, through solutions such as the Multiply wellness and reward programme. Where applicable, we offer reduced rates and discounts, further contributing to the financial goals and aspirations of our employees and their families.

MMI's Human Capital focus

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

- Enable a high performance MMI culture through engaged and committed employees that are fully empowered to deliver in their segments.
- Increase shareholder value through our people, ensuring we create a sustainable organisation that is fit for the future.
- Adapt our organisation for the needs of the incoming millennial generation and so better reflect the communities we serve.
- Embrace future ways of working through increased digitisation.

Talent development

Investing in our people's growth and development is pivotal to MMI's success. In the 2017 financial year, expenditure on skills development for learning programmes (specified in the Learning Programme Matrix) for African individuals as a percentage of leviable amount (payroll amount) amounted to R153 million. Through our formally accredited programmes (registered on the South African Qualifications Framework and aligned to the National Qualification Framework), we have trained 294 black (African, Coloured and Indian) employees.

As part of our commitment to developing the skills of South African youth and supporting B-BBEE, a further 10 082 black employees have been trained in occupationally-directed informal programmes in roles such as administrative marketing/sales, compliance, technical, management and leadership, among others. We also invested in learnerships through 573 internships for black learners, of which 247 were employed learnerships and the balance of 326 being unemployed learnerships.

MMI continues to attract, upskill, retain and empower employees to reflect the workforce of the future. As of 30 June 2018, 73% of new employees were under the age of 35. As a percentage of total employees, females represent 62% of our total workforce.

Innovation through diversity

Innovation is only truly experienced by clients when they can interact with us in more seamless ways through intuitive technologies and user-friendly ways of work. With deep product and client insight, MMI's people are continuously improving our services through an agile approach to fast-track the release of innovative offerings into the marketplace. MMI has been building people capability through talent acquisition and development in the fields of data science, big data, analytics, design thinking and agile to prepare and futureproof the organisation and enable the required capabilities to deliver on our strategic mandate.

Our culture provides the foundation for all our innovation efforts. We are increasing our focus on innovation and the behaviours that advance innovation, and our Human Capital team works closely with senior leaders to create an environment where everyone has the freedom to innovate.

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

Number of employees		30.6.2018	30.6.2017	30.6.2016
Indoor staff		**9 350**	9 199	10 077
	South Africa	8 099	7 984	8 782
	International	1 251	1 215	1 295
Field staff		**7 585**	8 031	7 483
	Momentum Retail	1 038	1 130	1 111
	Metropolitan Retail	4 535	5 395	4 804
	International	2 012	1 506	1 568
Total		**16 935**	17 230	17 560

Transformation review

MMI is steadfast in our commitment to transformation, which is integrated into our business and governance structures. The Board of Directors believes that transformation is integral to achieving MMI's purpose of enabling businesses and people from all walks of life to achieve their financial goals and life aspirations, and the group's transformation progress is monitored by the Social, Ethics and Transformation Committee on behalf of the MMI Board. Broad-based black economic empowerment (B-BBEE) underpins our strategic objective to promote access to financial services and improve financial literacy in a country that continues to grapple with inequality.

Given South Africa's growth rate, we still have a long transformation journey ahead to achieve an inclusive economy. Although MMI still has work to do in transforming our business, we are proud of our progress to date. As measured against the previous Financial Sector Code (FSC), we attained a Level 2 B-BBEE contributor status since 2012.

In December 2017, the much anticipated Revised FSC was promulgated, with all financial institutions who underwent their B-BBEE audit after December being audited against the revised code. Under the new requirements of the revised FSC MMI is a Level 3 contributor with a number of other companies also declining in their B-BBEE Levels. MMI is considering the impact of the revised FSC and will adjust our transformation strategy accordingly as we continue our transformation journey.

MMI Holdings revised FSC Scorecard

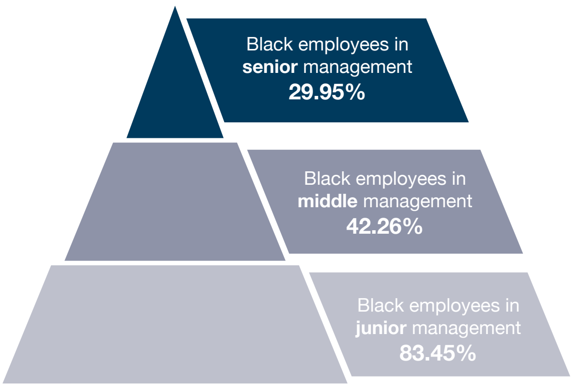
B-BBEE element	Maximum points including bonus points	MMI 2018
Equity ownership	28.00	19.50
Management control (Including employment equity)	20.00	12.52
Skills development*	23.00	9.92
Preferential procurement	19.00	17.00
Enterprise and supplier development	14.00	12.90
Socio-economic development (including consumer education)	8.00	6.00
Empowerment financing	15.00	14.82
Access to financial services	12.00	8.15
Total	**120 + 19 bonus points**	**100.82**
		Level 3

**The skills development performance was affected by more stringent requirements from the new revised FSC.*

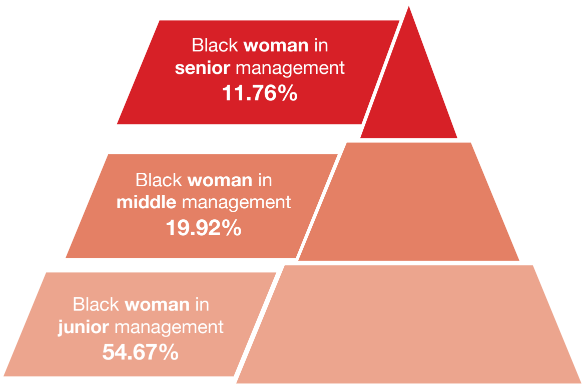
Employment equity

As one of MMI's values, diversity is pivotal to our business as we believe a diverse workforce yields better returns. Below is our employment equity performance.

Black senior – junior management



Black woman senior – junior management



MMI workforce (South African operations only)

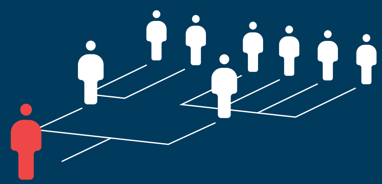
	South African								Foreign nationals		% Black people	% Black female	Total
	African		Coloured		Indian		White						
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male			
Dec 2015	4 614	2 717	1 556	842	649	522	1 967	1 288	66	70	76.27	44.57	14 291
Dec 2016	5 316	2 879	1 433	789	645	509	1 918	1 185	40	56	78.34	50.06	14 770
Dec 2017	**5 180**	**2 610**	**1 387**	**785**	**269**	**473**	**1 754**	**1 088**	**36**	**52**	**79.06**	**51.42**	**13 994**

Skills development

In F2017, over **R153 million spent** on developing our black employees.

Over **R85 million spent** on developing and upskilling of our black female employees.

Over **570 learnership opportunities** created.



MMI is a learning organisation.

As such, we are committed to providing our employees with portable skills that enable them to achieve their important financial goals and life aspirations. Our employees are our most valuable asset and we continuously explore innovative ways to enable them to reach their full potential through our other Human Capital programmes.

Preferential procurement

Over R5 billion was spent on procurement in F2017, with:

- **21.02%** Spent on qualifying small enterprises (QSEs)
- **13.13%** Spent on exempted micro enterprises (EMEs)
- **22.94%** Spent on suppliers who are at least **51% black owned**
- **15.57%** Spent on suppliers who are at least **30% black women owned**

MMI's procurement strategy supports our transformation efforts. Our procurement team works to proactively identify opportunities for preferential procurement throughout the value chain and continues to go beyond compliance by supporting and developing small businesses, enabling them to graduate onto our supply chain and access other markets. MMI is currently scoring full points on the corresponding line of the revised FSC Scorecard.

Enterprise and supplier development, and empowerment financing

MMI's Masikhulise Enterprise Development Trust supports and develops small businesses, including brokers and intermediaries. The Trust is mandated to address the challenge that the financial services sector is facing around untransformed supply chains, by supporting and providing funding to empower small businesses to access new markets. This includes MMI's own supply chain.

Spent on **targeted investments** and **B-BBEE transactions** through empowerment financing

Spent on **enterprise development** to develop and **grow small businesses**

Over 500 jobs created through supported small businesses

Over 400 enterprises supported through enterprise and supplier development initiatives

Creating social and environmental value

Creating social value

The South African National Development Plan (NDP) and United Nations Sustainable Development Goals (SDGs) have a similar intent and timeline. Through our strategy and commitment to enable businesses and people from all walks of life to achieve their financial goals and life aspirations, MMI is a partner in assisting in attaining the SDGs (and thereby, also the aspirations of the NDP) in the following areas:

- Access to finance.
- Investment.
- Positively influencing our own environmental, social and governance (ESG) practices, as well as those of corporate clients and investee companies.

This is done through:

- Providing annuity and retirement solutions, which promote saving and enable financial goals and life aspirations over the long term.
- Providing financial access to individuals, particularly in emerging markets.
- Providing access to microfinance.
- Providing short-term insurance, which promotes safety and security measures, and rewards clients who implement these.
- Providing the Multiply wellness and rewards programme that encourages our clients to improve various elements of their financial and physical wellness. Multiply aims to drive positive client behaviour in three areas of wellness, being physical wellness, safety and financial wellness.
- The Health product house promotes and manages the health of individuals to relieve the health burden on government as well as ensure the longevity and good health of its members.
- Investment in infrastructure and renewable energy.
- Ensuring responsible management of our clients' assets and money.
- Ensuring we participate in achieving the aims of the global Paris Agreement (of which South Africa is a signatory) by reducing our carbon emissions.
- Ensuring we put client centricity at the heart of our business and thereby embed the principles of treating customers fairly (TCF). We actively manage the implementation of TCF and monitor its progress regularly.
- Exploring, developing and providing innovative solutions to provide continuous enhancement of our Financial Wellness offerings.

MMI is listed on the FTSE/JSE Responsible Investment Index and the FTSE/JSE Responsible Investment Top 30 Index, which acknowledges our ESG achievements.

In addition to this, the global index company FTSE Group confirms that MMI Holdings has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

Companies in the FTSE4Good Index Series have met stringent ESG criteria and are positioned to capitalise on the benefits of responsible business practice.

The role of corporate social investment

MMI established the MMI Foundation to provide strategic oversight and governance, as well as play an advisory role for all corporate social investment initiatives undertaken by our client-facing brands. Historically, its social investment has been in the areas of health, disability, education and sports development.

However, given some of the current challenges facing South Africa, the MMI Foundation committed to being more deliberate in supporting South African youth in their quest to reach their most important financial goals and become active citizens of the country. To this end, the MMI Foundation now invests exclusively in programmes that deal with training, enabling and providing access to income opportunities for young people. We see this as a critical focus area for our country's future, but remain committed to honouring funding relationships with existing projects.

The Financial Sector Charter Code stipulates that 1% of net profit after tax (NPAT) must be dedicated to corporate social investment, of which 60% must be spent on socio-economic development (SED), and 40% on consumer education. Through the MMI Foundation, MMI's targeted spend on SED is 0.6% of NPAT and 0.4% for consumer education (CE). For the 2016/2017 financial year, more than R25 million was spent on qualifying initiatives. The weighted contribution for SED equated to 0.67% of NPAT (R13 million) and 0.62% for CE (R12 million).

MMI Foundation project overview

The National Education Collaboration Trust (NECT) is a partnership between business, trade unions, non-governmental organisations (NGOs), civil society and government to support and influence the agenda for educational reform. The NECT is committed to ensuring that 90% of learners pass mathematics, science and languages with at least 50% by 2030 in South Africa.

Rhiza Babuyile is an initiative that works to create ecosystems within disadvantaged communities that help the youth become economically active and self-sustaining. The MMI Foundation supports their Jobs 'n Jozi programme.

The MMI Foundation also supports the Ubuntu Pathways Vocational Training Programme, which follows an integrated service model (including healthcare, training for industry, job placement and career support) to support the needs of the young people they serve.

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

Consumer education

The MMI Foundation supports various financial literacy programmes that assist consumers in a number of communities to make better-informed transactional decisions. These programmes directly link to MMI's purpose of enabling businesses and people from all walks of life to achieve their financial goals and life aspirations.

We support the Motheo Financial Dialogues, a financial literacy series aimed at worksites and employees working in the development sector, which won the 2017 Batseta Imbasa Yegolide Award for financial literacy.

In 2016, we strengthened our focus on financial education programmes aimed at Grade 10 – 12 learners. In addition to the Making Money Matter board game, which teaches high school learners the basics of financial literacy, Metro Kickstarz was launched to encourage an entrepreneurial mindset among high school learners. This programme has now grown to encompass financial literacy training at ten schools across three provinces.

Sponsorships

Metropolitan and Momentum have various sponsorships that build brand awareness, enhance visibility and support the group's focus on creating prosperity and enabling businesses and people from all walks of life to achieve their financial goals and life aspirations. For F2018, these included:

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

Momentum and the University of South Africa – a purposeful collaboration

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

Introduced in 2016 and in 2017, additional research indices include insights into consumer and employee financial vulnerability and the drivers of employee productivity, across:

- Momentum/UNISA Household Financial Wellness Index (annual).
- Momentum/UNISA Household Wealth Index (quarterly).
- Momentum Corporate Consumer Financial Vulnerability Index.
- Momentum Corporate/UNISA Employee Financial Vulnerability Index.
- Momentum Corporate/UNISA Effective Employee Index.

Responsible investing

MMI is in a privileged position to be a fiduciary for our clients and stakeholders. Responsible investing forms part of our core beliefs as sustainable and responsible investment practices are a material factor underpinning our long-term success.

Outcomes-based investing is at the heart of MMI's client-centric strategy. Over our long history in financial services, our highly skilled teams have demonstrated extraordinary levels of innovation in pioneering initiatives, including being one of the first South African signatories of the United Nations-supported Principles for Responsible Investment (UN PRI). Responsible investment practices resonate with our Outcomes-based investment philosophy, which is aligned to our clients' long-term goals of positively influencing the world into the future.

Through our involvement in the Responsible Investment Committee of ASISA, support for the Code for Responsible Investing in South Africa, as a signatory to the UN PRI, and being a member of the International Corporate Governance Network, we strive to encourage other investment managers, service providers, asset consultants and investment owners to do the same.

*As signatory to the UN PRI, MMI produces a publicly available annual report on the PRI website **(www.unpri.org)** that details the investment integration of environmental, social and governance (ESG) risk factors by our investment team.*

In addition to the integration of ESG, Momentum Investments also offers a responsible investment portfolio (the Momentum MoM SuperNation Portfolio) and utilises ESG-focused building blocks extensively in Momentum Investments' “best-ideas” Factor Series™ range of portfolios. We consider the ESG risks of our investments to ensure their relevance against the overall objective. This applies across all asset classes, sectors and markets throughout the investment horizon of each respective investment.

MMI ensures ESG integration through various governance structures. The Responsible Investment Committee (RIC) sets policy and provides oversight of MMI's efforts in responsible investment, with member representation from across the business. A member of the RIC is always present at various sub-investment committee meetings to ensure ESG considerations are taken into account, with relevant feedback provided to the RIC on a quarterly basis.

We have set goal posts to help us build on our responsible investment approach. Under each goal post is a list of actions we take and annually review to strengthen our responsible investment initiatives. Our goal posts are shown below.

Goal posts

We follow a pro-active approach to ESG. Where possible, we manage and mitigate events before they escalate to a more material level that may severely affect our clients and/or stakeholders. With the respective investment professionals, the responsible investment team engages with listed companies throughout the year to address any concerns relating to ESG matters and resolve these with management.

*The engagement register is available on request and the record of proxy voting is publicly available on the MMI website **www.mmiholdings.com**.*

Through collaboration with various stakeholders in the market, we believe that a common goal of maintaining a sustainable economy can be achieved. These engagements occur on different levels within the investment team; for example, a pivotal collaboration initiative started in the past financial year was our participation in the Steinhoff Equity Shareholder Group with other investment managers, where we are considering appropriate remedies to address the events that have unfolded at Steinhoff. Another example of collaboration was with the CFA Institute and UN PRI that hosted an ESG integration workshop; an MMI ESG specialist served as a table facilitator on the day.

It is our fiduciary duty to follow up on material ESG concerns and engage on the matter appropriately. The investment team incorporates material ESG risks or concerns that are relevant to our clients' underlying portfolios into their presentations to disclose and discuss the management of these risks. We encourage transparency and disclosure of responsible investment practices across the investment industry, and therefore promote information integration across all decision-making and relevant stakeholders – from internal and external investment professionals to service providers and consultants.

Momentum Investments' responsible investment policy, proxy voting and engagement policy with the voting records are available on the company's website. The proxy voting and engagement policy is aligned with the Companies Act, UN PRI, King Codes of Corporate Governance and other global industry codes.

The table below is a summary of the proxy voting we undertook in the calendar year 2017:

Proxy voting summary for 2017[1]	
Number of shareholder meetings	232
Total resolutions	3 572
Abstentions[2]	8
Votes in favour	3 060
Votes against	504

*[1] To view detailed proxy vote history go to **www.mmiholdings.com***
[2] Abstentions will only occur when there is a conflict of interest.

Creating environmental value

Climate change and our carbon footprint

MMI participates in the CDP (previously the Carbon Disclosure Project) annually and our submission is publicly available on the CDP website at **www.cdp.net**.

In enhancing its understanding of the risks related to climate change, Momentum Short-term Insurance is currently the main sponsor of the University of Pretoria Natural Hazard Centre for Africa. Through this sponsorship, MMI is building a better understanding of climate change to more appropriately protect the group and its clients against adverse events due to climate change, by quantifying weather-related risks and developing unique offerings for the benefit of the safety of clients and the achievement of their financial goals and life aspirations.

The reporting period for MMI's carbon footprint has been changed to a calendar year (previously reported against our financial year) in line with the statutory reporting for the Department of Environmental Affairs (Regulation 7(4) (b) of the National Greenhouse Gas Emission Reporting Regulations). MMI's total carbon emissions for the period 1 January to 31 December 2017 was 63 016 metric tons. The largest contributor to our total carbon footprint was electricity, at 74%. To reduce our carbon emissions and enable the government to achieve its target of reducing country emissions by 34% by 2020 and 42% by 2025, we will continue to concentrate most of our efforts on reducing our electricity usage.

MMI established F2014 as the baseline year against which we set carbon emission reduction targets. The MMI Board originally approved a 12% reduction in carbon emissions by 2020, but the group has already exceeded that target in 2017. In 2017, our carbon footprint results show that we had a 17.52% reduction on our intensity target, and an overall reduction of 18.43% in absolute terms from our baseline year. Going forward, the Board has approved a total 25% carbon emissions intensity reduction target by 2030, from the 2014 baseline year. This target assumes that there will be decarbonisation of the South African grid.

As part of this process, carbon emissions will be monitored to ensure that appropriate initiatives are implemented to meet the target set, and our progress in reducing carbon emissions will continue to be reported annually in the CDP.

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

Stakeholder engagement

Our engagements with stakeholders help us to improve our role as a responsible corporate citizen in contributing to the resolution of broader socio-economic issues that face our country.

World Economic Forum

The World Economic Forum (WEF) took place on 23 – 26 January 2018, which was attended by our former MMI Deputy CEO, Mary Vilakazi, who conducted interviews from Davos. MMI's attendance at the event was preceded by an opinion piece on the WEF theme of creating a shared future in a fractured world that was published in full in Business Day. Further coverage included the Midday report on 702 and Cape Talk, CNBC Africa and BizNews.

The Forum is a platform for engaging on global issues with MMI's international counterparts, regulatory bodies and other stakeholders. It also serves to facilitate foreign direct investment into South Africa, with team South Africa engaging with international investors on why the country should be considered as an investment destination.

The Directors Event

MMI continues to be the headline sponsor of The Directors Event, which is pegged as South Africa's biggest board meeting. The event provides a platform where the crucial issues facing South Africa can be tackled by leaders across all sectors in our society. In the years since its inception, The Directors Event has provided incisive views on the path our country is taking, and these discussions are becoming more pertinent given the challenging operating environment facing South Africa.

Following the change in government leadership and the State of Nation Address in February 2018, the focus of the event this year was answering the call by President Cyril Ramaphosa to the #SendMe campaign. The theme centred on the notion that MMI and likeminded partners can be counted on to play our part in fixing South Africa's challenges. Technology to promote inclusive growth, youth employment and entrepreneurship, and South African politics and the economy were the three key areas of discussion at this year's event.

As part of this commitment, MMI and the Sunday Times contributed to the Youth Employment Service (YES) initiative that aims to create one million jobs for the youth by 2020.

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

Participation and involvement in industry bodies

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

In making proposals to improve the financial system with legislators, we believe it prudent to do so through relevant industry associations to ensure that industry-wide proposals are developed with diverse input, rather than proposals with narrow interests. We believe in open, honest and proactive engagements with our regulators.

Examples of our interactions include:

- *The Association for Savings and Investment South Africa (ASISA)*
  ASISA covers a broad range of financial services across many aspects of our South African business. We are therefore an active participant at various levels, including participation by MMI's CEO on the Board, Board Committees with MMI's executives, and the various standing and working committees with representation by technical experts within MMI.
- *The South African Insurance Association (SAIA)*
  Guardrisk and Momentum Short-term Insurance are both active members of the association for short-term insurers. Guardrisk's CEO is a Board and Executive Committee member, and employees from both businesses are members of various technical subcommittees and working groups. The SAIA is an important stakeholder in the South African economy and plays a vital role in supporting the sustainability of the local economy.
- *Board of Healthcare Funders of Southern Africa*
  Metropolitan Health has been a member of the Board of Healthcare Funders of Southern Africa (BHF) for many years. Metropolitan Health's CEO, Dr Ali Hamdulay, is the current non-executive Chairman of the BHF Board of Directors. As a medical aid administrator, we play a critical role in contributing to and lobbying various industry bodies and stakeholders to advance the medical industry. We provide technical expertise to investigate industry issues related to benefit and risk management to ensure a sustainable and viable private healthcare funding industry.

- *Council for Medical Schemes*
  MMI contributed to the Prescribed Minimum Benefit (PMB) review process to highlight current challenges with the existing PMB framework. Among other recommendations, we proposed that a representative advisory body be constituted to coordinate the input of key workstreams. MMI also participates in the task team mandated to review the PMB Code of Conduct.
- *Other professional bodies*
  Many of our senior employees (including actuaries, accountants, lawyers and doctors) are active participants within their respective professional bodies looking to advance learnings and practice in their areas of expertise.

Stakeholder model review

The stakeholder engagement operating model and strategy will be reviewed over the coming year due to changes in MMI's organisational structure. This will ensure that stakeholder engagement remains responsive to business needs.

Additional information

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

Governance

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

JJ Njeke (59)
Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax
Appointed to Board: 2010
Committee Membership: NOMCO

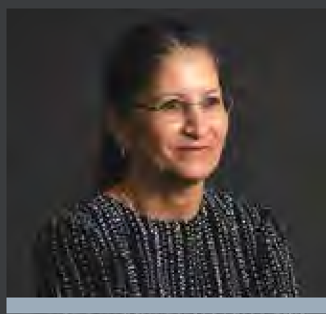
Louis von Zeuner (57)
Deputy Chairman
Non-executive, independent
BEcon
Appointed to Board: 2014
Committee Membership: AUDIT, RCC and NOMCO

Hillie Meyer (59)
Group Chief Executive Officer
Executive
BCom (Econometrics), Fellow of the Institute of Actuaries
Appointed to Board: 2018
Committee Membership: SETC and RCC

Jeanette Cilliers (Marais) (50)
Deputy Chief Executive Officer
Executive
BSc (Mathematics and Statistics), MBA (with Honours) (IMD Switzerland), PED
Appointed to Board: 2018
Committee Membership: No Committee Appointments

Risto Ketola (43)
Group Finance Director
Executive
BSc, CFA Charterholder, Fellow of the Institute of Actuaries
Appointed to Board: 2018
Committee Membership: AC

Peter Cooper (62)
Non-xecutive, independent
CA(SA), BCom (Hons), HDip Tax Law
Appointed to Board: 2015
Committee Membership: REMCO, RCC and NOMCO

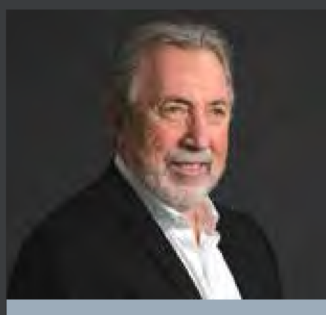


Fatima Daniels (Jakoet) (57)
Non-executive, independent
BSc, CTA, CA(SA)
Appointed to Board: 2010
Committee Membership: AUDIT and RCC

Prof. Stephen Jurisich (53)
Non-executive, independent
BSc (Hons) Actuarial Science, FASSA, FFA
Appointed to Board: 2016
Committee Membership: AC and FPC

Niel Krige (69)
Non-executive, independent
MCom, FIA (London), AMP (Harvard)
Appointed to Board: 2011
Committee Membership: AC

Jabu Moleketi (61)
Non-executive, independent
AMP (Harvard), MSc in financial economics (University of London), postgraduate diploma in economic principles (University of London)
Appointed to Board: 2010
Committee Membership: REMCO and SETC



Syd Muller (69)
Non-executive, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)
Appointed to Board: 2010
Retiring: November 2018
Committee Membership: AUDIT and SETC

Vuyisa Nkonyeni (48)
Non-executive, non-independent
BSc (Hons), CA(SA)
Appointed to Board: 2011
Committee Membership: RCC

Khehla Shubane (62)
Non-executive, independent
BA (Hons), MBA
Appointed to Board: 2010
Committee Membership: SETC and FPC

Frans Truter (62)
Non-executive, independent
BCom (Hons), CA(SA), AMP (Oxford)
Appointed to Board: 2010
Committee Membership: AUDIT, REMCO, RCC and NOMCO

Johan van Reenen (63)
Non-executive, independent
BSc (Hons), MBA
Appointed to Board: 2010
Committee Membership: REMCO and RCC

Maliga Chetty (48)
Company Secretary
BA, BProc, LLM, CIS
Appointed: 2013
Resigned effective 30 September 2018

At the time of the merger, all directors appointed on the MMI Holdings Board were taken to be appointed to the Board with effect from 1 December 2010, being the effective date of the merger. Note that MMI Holdings Ltd (previously Metropolitan Holdings Ltd) was incorporated on 21 December 2000.

SETC	Social, Ethics and Transformation Committee
REMCO	Remuneration Committee
AC	Actuarial Committee
RCC	Risk, Capital and Compliance Committee
AUDIT	Audit Committee
FPC	Fair Practices Committee
NOMCO	Nominations Committee

Corporate governance report

Governing MMI for our stakeholders

At MMI, sound corporate governance provides a foundation on which investor trust is built and contributes to creating value for our stakeholders.

Group governance structure

Summary of governance initiatives for 2018

- Ongoing execution of the 17 Principles and Recommended Practices in the King IV™ Report on Corporate Governance for South Africa 2016 (King IV).
- Reviewed MMI's operating model to assess its continued relevance and to ensure ongoing focus to enable businesses and people from all walks of life to achieve their financial goals and life aspirations.
- Considered MMI's talent management strategy, and the composition of the MMI Board, Board committees and Executive Committee (Exco) in respect of succession planning, and implemented various changes including leadership changes.
- Revised the governance structure, organograms, governance framework and delegation of authority policy to enhance MMI's governance outcomes.
- Performed the annual review and approval of risk appetite and tolerance levels for MMI.
- Approved the revised Board diversity policy to include the promotion of racial diversity at Board level. Gender targets and race targets have been set.

Statement of commitment

The MMI Board, representing the MMI group of companies, is committed to the highest standards of corporate practice and conduct, which are to a large extent enunciated in King IV. The group endeavours to implement the best processes and principles of good corporate governance to assist its directors and management to discharge their duties and responsibilities with integrity, while striving towards excellent ethical leadership for the benefit of all MMI's stakeholders.

Appropriate and bespoke best practices are adopted and monitored in all the countries in which MMI operates.

Assessment of King IV principles

After King IV came into effect in April 2017, MMI assessed and considered its application and adherence to the 17 King IV principles. The outcome demonstrated that MMI's governance processes are well entrenched and that the group applies all the King IV principles.

*MMI's report on the application and disclosure on the 17 King IV principles can be accessed on the MMI website **www.mmiholdings.com**.*

MMI continues to make every endeavour to implement the King IV recommended practices taking into account the size and complexity of its business. In this regard, a full gap assessment was undertaken for the period 2017/2018 and will be reviewed annually. The

King IV Recommended Practices review for 2018 /2019 is currently being undertaken. Most of the comments from the prior assessment are still applicable and the document will be updated each year and tabled at the November round of Audit Committee meetings.

Culture and leadership

The Board's governance approach is based on a foundation of trust and integrity, and fosters strong corporate values of ethical and effective leadership. MMI's client-focused corporate strategy is centred on its purpose to enable businesses and people from all walks of life to achieve their financial goals and life aspirations. In creating value for its stakeholders, MMI subscribes to good sustainability principles and strives to be financially sound, socially responsible as well as an environmentally conscious organisation with good corporate governance as the overarching principle.

Role of the Board

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

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

The MMI Board is supported by the Board committees depicted in the MMI organogram shown earlier. These committees are empowered to further delegate authority to appropriate forums to assist them in dealing with matters defined in the terms of reference. These committees report to the MMI Board on a quarterly basis and to other relevant Boards, committees and forums in MMI as required. The MMI Board approves the delegated responsibility and powers, limits and authorities applicable to each Board committee.

The MMI Nominations Committee, at its meeting on 22 June 2018, approved the establishment of a new Board governance committee to serve as an Investments Committee. Finalisation of the composition of this new committee and its terms of reference is underway.

The Board met five times during the year, with four scheduled meetings and a fifth being a special meeting to discuss important business developments. The Board also met for a strategy planning session over three days during November 2017.

Composition of the Board

The chairman of the Board is an independent non-executive director and free from conflicts of interest. In addition, MMI has appointed a Deputy Chairman to its Board.

The strategic operational role of the CEO is separate from that of the chairman of the Board.

The Board of Directors consists of an appropriate mix of individuals to ensure an adequate spread and level of knowledge, skills, expertise, diversity and independence with division of responsibilities and accountability, as outlined in the Board charter. During the past year, MMI undertook a full analysis of the skills of its Board members, with the outcomes used as additional guidance when considering prospective appointments to the Board.

Retirement of a director

Mr Syd Muller was appointed as a member of the MMI Board of Directors of the company with effect from the Momentum-Metropolitan merger in December 2010. In accordance with the Companies Act, 71 of 2008, as amended (the Act) and the group's memorandum of incorporation (MOI), Mr Muller, having reached the age of 70 years, retires as a director on the MMI Board with effect from the date of the annual general meeting (AGM), being 26 November 2018.

Board diversity policy

A diverse Board recognises and includes a balance of knowledge, range of skills and experience, age, culture, race, gender and other distinctive merits between directors. In reviewing and determining the optimal composition of the Board, the MMI Nominations Committee considers all aspects of diversity, including race and gender diversity, to ensure that the Board may effectively discharge its duties and responsibilities. The Committee also ensures that the Board structure, size and composition is appropriately balanced.

To align with legislative prescripts promulgated from time to time, the Committee regularly considers and determines targets and target-setting to include gender and race representation, respectively.

Directors' independence

The Board considers all relevant legislation and guidance documents when assessing the independence of its directors. This includes the King IV Recommended Practices, provisions of the JSE Listings Requirements, legislation and standards specific to the financial and insurance sector, including the Governance and Risk Management Framework issued by the Prudential Authority under the Insurance Act, 18 of 2017 and others. The individual status of the directors are recorded on pages 78 and 79 of this integrated report.

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

Directors' interests

As the CEO of MMI's strategic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), up until the end of December 2017, Vuyisa Nkonyeni had an interest in the contractual relationship between the two parties and was thus considered non-independent. He continues to serve on the MMI Board as the KTH representative while they are filling their CEO vacancy.

The non-executive director, Peter Cooper, albeit a director on the Board of one of MMI's larger shareholders, RMI Holdings Ltd (a 25% shareholder in MMI), is not appointed as shareholder representative on the MMI Board and does not exercise any control or influence on the Board that is any different to the responsibilities of any other Board member. He is therefore, considered an independent non-executive director.

Appointment, re-election and rotation of directors

The Nominations Committee is tasked with the responsibility of considering suitable candidates for directorship on the MMI Holdings Board and the election or re-election of directors are duly tabled for shareholder approval. The appointment, rotation, resignation and removal of directors are undertaken in accordance with the Company's MOI, the Companies Act and other relevant prescriptions or requirements. The Nominations Committee also considers the fit and proper status of prospective directors, and regularly reviews the fit and proper status of the directors appointed to the Board.

For further detail, refer to the MMI MOI on the MMI website ***www.mmiholdings.com****.*

The Company's MOI requires the resignation of at least one third of non-executive directors at its AGM. A list of non-executive directors required to retire by rotation annually is considered by the Nominations Committee and, after debating relevant criteria, a recommendation is included for approval in the AGM notice.

Board committees

Social, Ethics and Transformation Committee

The MMI Social, Ethics and Transformation Committee (SETC) is mandated and authorised by the Board to fulfil its monitoring and evaluation roles. In doing this, the SETC monitors the progress of the group in ensuring that the racial imbalances of the past are corrected, and that leadership and talent are encouraged by positive and affirmative policies.

Summary of key strategic initiatives in 2018:

- Monitored MMI's broad-based black economic empowerment (B-BBEE) contributor status, in particular the more stringent targets under skills development, preferential procurement, enterprise and supplier development, as well as the introduction of the Black Industrialists Fund in terms of equity equivalents and ownership top up.
- Monitored progress towards achieving the group's employment equity plan.
- Managed the impact of the amendments to the Preferential Procurement Policy Framework Act.
- Monitored progress of the group's sustainability plans, including the reduction of its carbon footprint.
- Monitored the impact of corporate social investment initiatives in targeted communities and selected beneficiaries.
- Monitored ongoing legislative developments and their impact on MMI, such as the introduction of priority elements in the Financial Sector Code (FSC), which was promulgated in December 2017.
- Considered Namibia's new Equitable Economic Framework Legislation and its impact on MMI's business in Namibia.
- Considered President Cyril Ramaphosa's call for action, known as the Yes Programme, that is focusing on youth employment services.
- Considered the impact of the recent court judgement relating to the "once empowered always empowered" principle.
- Monitored reporting and escalation protocols.
- Ensured that company procedures are ethical and aligned to the legislative requirements for risk, compliance and Treating Customers Fairly (TCF).

The SETC has satisfied itself that the management of corruption, commercial crime and unethical employee behaviour is appropriately and effectively managed within the group.

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

At MMI, we consider B-BBEE and transformation as essential in achieving MMI's purpose of enabling businesses and people from all walks of life to achieve their financial goals and aspirations. B-BBEE underpins our purpose to enhance Financial Wellness in a country that continues to grapple with inequality, inadequate access to financial services and lack of financial literacy, among other issues. MMI is guided by the FSC in delivering its B-BBEE and transformation objectives, and has attained a Level 3 contributor status under the current FSC.

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

Fair Practices Committee

The Fair Practices Committee (FPC) is mandated by the MMI Board to ensure that fair treatment of clients is embedded as a core corporate value at all levels of the group. The FPC acts as an independent governance forum responsible for overseeing the implementation of, and adherence to, TCF in relation to life licence products, business practices pertaining to linked-investment services provider products, unit trust products, healthcare business, investment business, employee benefits business and all other operations forming part of MMI group.

Fair treatment is measured against the fairness outcomes defined by the Financial Sector Conduct Authority (FSCA) in their TCF initiative. The FPC also functions as the Discretionary Participation Committee of MMI's life companies.

Summary of key strategic initiatives in 2018:

- Approved the principles and practices of financial management for the period July 2016 to June 2017 as well as the communication plan in accordance with Directive 147 A of the FSCA. The following principles and practices of financial management were updated:
  - Metropolitan Retail: Smoothed bonus and conventional with-profits business.
  - Momentum Retail: Smoothed bonus business, conventional with-profits (reversionary bonus) business and secured funds business.
  - Momentum Corporate: Smoothed bonus business and Multi-Manager Smooth Growth Fund range.
- Approved Momentum Group Whole Life Reviews. The approval took into consideration technical fairness and ensured that the review process and options were effectively communicated to intermediaries and our clients.
- Approved the appointment of the group head of market conduct.
- Provided oversight and guidance on the MMI's market conduct risk management strategy.
- Reviewed the market conduct framework and sub-frameworks, which are in the process of being implemented.
- Approved the review of all TCF self-assessments gap analysis.
- Monitored MMI compliance with customer outcomes set out internally and through the TCF outcomes of the FSCA.
- Monitored improvement of client satisfaction.
- Monitored improvement of ombudsman escalations.

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

Risk, Capital and Compliance Committee

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

Summary of key strategic initiatives in 2018:

- Reviewed and challenged the holistic risk profile (shareholder and policyholder risks) across MMI and the supporting risk management processes.
- Reviewed MMI's risk and solvency profiles against risk appetite.
- Reviewed the impact of the sovereign debt downgrade as well as changes in the local and global political landscapes on MMI and the macro environment.
- Reviewed the ongoing development and implementation of the Own Risk and Solvency Assessment (ORSA) process.
- Approved the appointment of the head of compliance.
- Approved the stress testing scenarios that are assessed as part of the ORSA process.
- Approved the revised MMI risk strategy.
- Approved the revised credit risk appetite for the MMI Lending business.
- Reviewed the execution of corporate transactions.

- Reviewed the financial performance of strategic initiatives.
- Reviewed the implementation of key strategic initiatives, including the joint ventures with Aditya Birla Capital (in India) and African Bank (in South Africa).
- Reviewed MMI's dividend sustainability.
- Approved the revised capital deployment and distribution plan.
- Reviewed the implementation of the share buy-back programme.

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

Nominations Committee

The Nominations Committee makes recommendations to the Board on various issues, such as the election and re-election of non-executive directors, appointment of executive directors on material subsidiaries within MMI, the appropriate size and composition of the Boards of MMI Holdings and MMI group, succession planning for key executives and the MMI Holdings Board and committees. A further key function is to ensure an effective process of corporate governance, taking into account the complexity and risks inherent in MMI group, whilst giving due consideration to governance best practices and relevant legislation.

Summary of key strategic initiatives in 2018:

During the year under review, the following were some of the matters dealt with at the Nominations Committee meetings:

- Made changes to the composition of the Board and Board committees, as well as prospective candidates to the MMI Holdings and MMI group Boards. In view of the MMI CEO, Nicolaas Kruger, stepping down as CEO from 15 February 2018, Hillie Meyer was appointed on a three-year contract as CEO of MMI. Jeanette Cilliers (Marais) also joined the group as deputy CEO from 1 March 2018. Risto Ketola, the CFO of MMI Holdings, was appointed the Group's Finance Director.
- Decision taken to hold meetings of the Boards of MMI Holdings and MMI group concurrently going forward, and to investigate legal and compliance requirements with a view to giving effect to the in-principle recommendation to appoint the same members to serve on both these Boards.
- Reviewed the MMI Directors serving on the MMI Board, various Subsidiary Boards and Board Committees and approved relevant changes, especially in light of the various leadership changes within MMI.
- Discussed the MMI non-executive directors retirement schedule and appropriate succession planning.
- Considered MMI's Talent Management and MMI Exco succession planning. Discussion on the succession plan for the MMI group CEO who was appointed in February 2018 on a three-year contract will take place in due course.
- Undertook a skills analysis on all MMI Board members to ensure that the Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence of it to discharge its responsibilities objectively and effectively.
- Discussed proposed changes to MMI's governance structure, operating model and organogram.
- Approved the MMI Board Diversity Policy (version 2). With regards to the voluntary setting of gender and race targets for the MMI Board, it was agreed that target-setting must be progressively attained and the determination of quantifiable targets will be discussed in due course.
- The MMI King IV Gap Analysis, as it pertains to this Committee was discussed and the members were satisfied that MMI was compliant with all Recommended Practices and explanations provided as necessary. The gap analysis is a live document and will be reviewed on an ongoing basis.
- Commented on the MMI Reporting and Escalation protocols re complaints as well as considered various ethics-related complaints received through the Complaints Hotline.
- Reviewed the Fit and Proper status of Responsible Persons within MMI and considered various other governance-related matters.
- Considered the relevant resolutions for inclusion in the MMI Holdings AGM Notice and approved same / made recommendations to the Board for approval.
- Approved the process to conduct an annual assessment on the Boards, Board Committees, (Director) Self and Peers for MMI Holdings Ltd, MMI Group Ltd and other relevant regulated subsidiaries within MMI.

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

Remuneration Committee

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

Summary of key strategic initiatives in 2018:

- Ensured that MMI adhered to fair and responsible remuneration across the company, specifically in terms of annual increases, bonus and long-term incentive payments.
- Engaged with dissenting shareholders regarding the reasons for their vote against the group's remuneration policy at the AGM that took place on 24 November 2017, where MMI received less than 75% approval.

- Assessed the implications of King IV requirements to ensure implementation of the required changes in the current year.
- Reviewed the overall level of variable remuneration in MMI versus its competitors, and made changes to the mix between short- and long-term incentives going forward.
- Benchmarked non-executive directors' fees to ensure they remain market related.
- The professional commitments of the CEO, including membership of Boards outside the organisation was discussed at Remco. It was agreed that he would resign as a Board member from all entities on which he served and where there was a conflict of interest with MMI's business. He could, however, retain his interest in certain juristic entities in which he had a personal interest.
- Reviewed the MMI short-term incentive scheme balanced scorecard for F2018, and formulated and approved the F2019 scorecard.

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

Refer to the remuneration report starting on page 100 for further detail.

Actuarial Committee

The role of the Actuarial Committee is to act as an advisory forum for the Board and other Board committees on actuarial and related technical matters, to assist the Board in discharging its fiduciary duties to policyholders and shareholders, and to assist the heads of the actuarial functions to fulfil their professional and statutory duties.

To accomplish its role, the Committee performs the following functions:

- Provides oversight over the integrity and correctness of actuarial statements and reporting, including the overall methodology and assumptions used to value the assets and liabilities underlying the statutory and published valuation results, and embedded value results.
- Considers the projected valuation results over the business planning period, as part of the ORSA process.
- Reviews and recommends bonus declarations on discretionary participation policies to the MMI Group Limited Board.
- Ensures that details of the design features and pricing of new products and product revisions are regularly reviewed.
- Reports and accounts to the MMI Holdings Board at least quarterly.

Summary of key strategic initiatives in 2018:

- Considered the half-year and annual statutory and published valuation results, and embedded value results.
- Considered the Solvency Assessment and Management valuation results, as well as the projected balance sheet, risk appetite and economic capital results used in the ORSA process.
- Considered other matters, such as the proposed bonus declarations on discretionary participation policies, principles and practices of financial management, insurance risk annual report, the Product Management Committee report and proposed dividend/share buy-back declarations.
- Expressed its satisfaction to the Board with the performance of the head of the actuarial function.
- Monitored how the changing regulatory landscape would impact on valuation methodologies.

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

Audit Committee

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

Summary of key strategic initiatives in 2018:

- Approved the published MMI Holdings financial results.
- Reviewed and approved quarterly trading updates communicated to the market.
- Reviewed and approved the integrated report.
- Approved the risk-based internal audit plan for the financial year and quarterly internal audit feedback.
- Monitored the internal audit co-source agreement.
- Monitored the activity of the divisional combined assurance forums and conducted deep dives into some of the segments.
- Approved the external audit plan for the financial year and feedback from external audit at the financial year-end meeting.
- Approved external audit fees.
- Reviewed management's assessment of going concern.
- Reviewed the development of the combined assurance model.
- Reviewed the group's internal financial controls (IFC).
- Reviewed the group's IT governance processes, including information security, disaster recovery plans and testing, and data governance.
- Provided recommendations on dividend/share buyback proposals to the Board.

- Satisfied itself with the independence and objectivity of the external auditor and other requirements in terms of section 94(8) of the Companies Act and King IV principles and Recommended Practices.
- Ensured the independence of the internal audit function and that is has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties as per King IV good governance requirements. This included assessing the performance of the chief audit executive and the internal audit function.
- Satisfied itself that the Group Finance Director has the appropriate expertise and experience to act in this capacity, and that MMI has established appropriate financial reporting procedures and that those procedures are operating.
- Assessed the suitability of the current audit firm and designated partner, in compliance with the JSE Listing Requirements and taking into account other relevant legislation.
- Oversaw the company's risks, which included financial reporting risks, IFC, and fraud and information technology risks relating to financial reporting.

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

Board evaluation and training

In line with best practice and the King IV Recommended Practices, MMI conducted a Board and Board committee evaluation (including a director self-assessment) in April 2017 for MMI Holdings Limited and MMI Group Limited. The assessment included director self-assessments and a fit and proper evaluation of all directors. There was full participation by all directors in the process, with the final evaluation report tabled at the MMI Nominations Committee, MMI Board and Board committee meetings at the end of June 2017. The overall performance of the Board and the individual members confirm an effective and well-performing Board. Other comments received through this process were addressed by management at the relevant Board committees. In response to comments made in previous assessments, an important development implemented during the year is regular training being provided to MMI directors on topical issues.

Delegation of authority

The Board has delegated the authority for the management of the group to the MMI Group Chief Executive Officer (CEO) by way of a delegation of authority policy and the CEO powers are collateral with that of the Board. In delegating these powers, the Board has imposed certain restrictions, conditions and limits that they believe to be appropriate for the effective exercise of such delegated powers. In turn, the CEO has sub-delegated authority to the MMI Executive Committee members and various operational committees, who are mandated to further sub-delegate to appropriate persons within MMI. The Board reviews the MMI delegation of authority policy regularly, and during June 2018 the policy was completely revised to be more streamlined and include more effective checks and balances.

Managing executives

The MMI Executive Committee (Exco) is chaired by the Group CEO and meets at least once a month. The CEO appoints the members of Exco and the composition includes the chief executives of the various client-facing businesses and group-wide functions. The MMI Exco is appointed to act on behalf of the MMI group as a whole and the executive functions for the MMI group are fulfilled by the MMI Exco. The Exco is also the custodian of MMI's strategy and is responsible for executing the strategy, as approved by the MMI Board. They also provide the Board with information on various matters pertaining to MMI, ranging from advice and recommendations on the organisation, governance, operational and other strategies, plans, policies and procedure, to enable the Board to make informed decisions.

The MMI Exco is supported by various other executive subcommittees and operational forums.

Company secretary

The company secretary as appointed by the Board, is the primary provider of professional corporate governance services to the Board and its committees. The Board of Directors have satisfied themselves that the company secretary is suitably qualified and competent, in accordance with applicable legislation, to act as the group company secretary, and the Board annually assesses the performance of the Company Secretary.

The Company Secretary has unrestricted access to the chairman of the Board and chairpersons of all Board committees, including the MMI Group CEO, and plays a vital role in ensuring the effectiveness of the Board and its committees by, inter alia, ensuring the Board and its committees receive sufficient support from the company secretary for its coordination and functioning. There is an arm's length relationship between the Board and the company secretary in that the objectivity and independence of the company secretary is not unduly influenced.

The company secretary engages professionally and independently of management and does not have executive duties and responsibilities other than those that are core to a company secretary. Further to this, there is no conflict of interest affecting the company secretary's ability to adequately and effectively perform her duties.

For the abbreviated CV of the group company secretary, Maliga Chetty, (Resigned effective 30 September 2018) refer to the MMI website ***www.mmiholdings.com****.*

Ethical behaviour

MMI has a code that sets ethical standards of conduct and ensures that the requisite behaviour is aligned to MMI's values. The code of ethics and standards for conduct deals with the following, among other issues:

- Standards for employee behaviour.
- Commitment to regulatory compliance.
- Prohibiting facilitation of payments.
- Dealing with conflicts of interest.
- Prohibiting practices to facilitate money laundering and corrupt activities.
- Ensuring the fair and ethical treatment of clients.

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

Reporting fraud and unethical behaviour

MMI has a number of business-specific reporting facilities available to deal with reports of fraud and unethical behaviour. These facilities include telecommunication lines and web reporting tools for all employees, clients and authorities in local and African subsidiaries. These reporting structures adhere to the standards set in relevant legislation and good corporate practices.

Promotion of Access to Information Act

MMI Holdings has established a formal process to timeously deal with requests for access to records and information by third parties as determined by the Promotion of Access to Information Act, 2 of 2000 (PAIA). In terms of PAIA, MMI's information officer is Douw Lotter.

Information technology governance

MMI's business is critically dependent on its information systems and technology (IT). To ensure appropriate governance and risk management of this key business enabler, the MMI executive established the MMI IT Executive Committee (IT Exco) to oversee all IT governance and the IT strategy to support MMI's strategic objectives. The IT Exco further established the MMI IT Architecture Committee to manage the design of MMI's technology architecture. The Board is ultimately responsible for IT governance and the implementation of the overall IT strategy.

Key responsibilities of the IT Exco include:

- Setting direction for how technology and information should be approached and addressed in MMI by developing an MMI IT philosophy and IT strategy.
- Approving a policy to articulate and give effect to the MMI IT philosophy and IT strategy on employing technology and information.
- Delegating to management the responsibility to implement and execute effective technology and information management.
- Exercising oversight of technology and information management and, in particular, ensure that it results in the:
  - Integration of people, technologies, information and processes across the organisation.
  - Integration of technology and information risks into the organisation-wide risk management system.
  - Enablement of business resilience.
  - Proactive monitoring of intelligence to identify and respond to incidents, including cyber-attacks and social media events.
  - Management of the performance of, and the risks pertaining to, third parties and outsourced providers for IT services.
  - Assessment of value delivered to MMI through cycles and of significant operational expenditure.
  - Responsible disposal of obsolete technology and information in a way that considers environmental impact and information security.
  - Ethical and responsible use of technology and information.
  - Compliance with relevant laws.
- Exercising oversight of the management of information and, in particular, that it results in:
  - An information architecture that supports confidentiality, integrity and availability of information.
  - Protection of privacy of personal information.
  - Continual monitoring of the security of information.
- Exercising oversight of the management of technology and, in particular, that it results in:
  - A technology architecture that enables the achievement of strategic and operational objectives.
  - Management of risks pertaining to the sourcing of technology.
  - Monitoring and appropriate responses to developments in technology, including the capturing of potential opportunities and the management of disruptive effects on MMI and its business model.

- Considering the need to receive periodic independent assurance on the effectiveness of MMI's technology and information arrangements, including outsourced services.
- Disclosure in relation to technology and information, including:
  - An overview of the arrangements for governing and managing technology and information.
  - Key areas of focus during the reporting period, including objectives, significant changes in policy, significant acquisitions, and remedial actions taken as a result of major incidents.
  - Actions taken to monitor the effectiveness of technology and information management, and how the outcomes were addressed.
  - Planned areas of future focus.

The chairperson of the IT Exco is the MMI chief operating officer (COO), who is also a member of the MMI Exco.

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

Managing IT risks

The IT Exco provides executive oversight and reviews MMI's IT risk profile by:

- Ensuring the MMI IT risk management framework is appropriately implemented within all business areas, functions, group service areas and subsidiaries.
- Ensuring that MMI management is aware of their responsibilities as they relate to IT risk management and the implementation of controls.
- Ensuring MMI's IT risk exposure and the effectiveness of IT risk management processes are appropriate, including cyber-related risks.
- Monitoring key corrective actions initiated by management and the IT risk management functions.
- Reporting key IT risk exposure and the effectiveness of the management thereof to the Risk, Capital and Compliance Committee.

Business Disruption and Disaster Recovery

MMI's business continuity management (BCM) programme, via a process of continuous improvement, aims to ensure that our business will be able to continue its critical business operations should a large-scale incident disrupt business activities. Various Business Continuity and Disaster Recovery scenarios were tested during the year under review. These exercises provided the platform for operating segments from across the group to test according to the agreed scope of the given scenario. The programme is driven and owned by the operating segments, with programme guidance, monitoring and reporting provided at group level.

Annual activities performed as part of our BCM programme include:

- Updating our business impact analysis and recovery plans.
- Reviewing our recovery strategy and plans.

Compliance

The regulatory landscape continues to change at a rapid pace. The Twin Peaks model has now been implemented in South Africa with the establishment of the prudential and market conduct regulators. These changes have brought in new and more stringent compliance requirements. The Board remains committed to upholding the highest standard of compliance with regulatory requirements (including national laws, industry regulations and codes of good practice), which it consider an integral part of doing business. The Board has delegated compliance management to the group compliance officer who facilitates the management of compliance through analysing regulatory requirements, and monitoring their implementation and execution together with the compliance functions of the various segments. Material deviations are reported to the Risk, Capital and Compliance Committee. There were no material deviations during the 2018 financial year that warrant separate reporting.

Risk management and control environment

MMI recognises that clear accountability is fundamental to effective risk management and makes use of various assurance providers to provide comfort that its key risks, processes and controls are functioning as intended.

Combined assurance integrates and coordinates the activities of the assurance providers, whose functions include risk management, compliance, actuarial, internal audit and external audit and other independent third party specialists.

Risk management

MMI's risk management system includes various policies, strategies, processes, procedures and tools for identifying, measuring, monitoring, managing and reporting all material risks to which MMI is exposed. The ORSA framework and policy sets out the key principles that guide the implementation of risk and capital management at all levels. It provides the necessary foundations and organisational arrangements for managing risk within MMI, and illustrates how risk management is embedded in all segments to ensure that effective risk management strategies are integrated in all work contexts.

At MMI, risk management is an integral part of the management processes. The group's effectiveness is enhanced by risk management being a part of the group's culture and being embedded in daily practices and business processes. Risk management focuses on the relationship between risk, opportunity and its impact on achieving objectives.

Further details are available in the risk management report starting on page 96.

Internal control system

The internal control system acts as an enabler for delivering effective governance and demonstrating that adequate internal controls are in place and operating satisfactorily.

The MMI internal control system outlines the various elements influencing and contributing to a sound internal control environment to ensure adequate control over operations, compliance and financial reporting. It is designed to assist the MMI Boards, managing executives and other management within MMI, and provides reasonable assurance from a control perspective that the business is being operated consistently within:

- Set strategy and risk appetite.
- Agreed business objectives.
- Agreed policies and processes.
- Laws and regulations.

Share dealing and insider trading

MMI's policy on dealings in MMI securities was approved at a Board meeting during November 2013, and is reviewed regularly thereafter, with the last review in June 2018. In essence, the policy provides guidance to MMI directors, members of the MMI Exco and persons holding other key positions in MMI, on trading and restrictions on dealing in the company's listed shares during closed and prohibited periods as per the provisions of the JSE Listings Requirements.

The directors and company secretary (including their associates) of MMI and its major subsidiaries may not trade during a prohibited period. All employees of the group are prohibited from trading in the listed company's shares during closed periods unless clearance to trade has been obtained from the group company secretary under the direction of the Chairman of the Board. These policies have been widely distributed within MMI to ensure that directors and employees are familiar with its content. The Board has also approved an information policy that deals with the identification, classification and effect of information arising in the ordinary course of business (as well as information that does not arise in the ordinary course of business) with respect to the listed company and the regulatory and group compliance requirements.

Political party support

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

Shareholder communication and investor relations

The group maintains highly rated standards of shareholder communication that are widely recognised by members of the investment community. Over and above the normal interim and full-year financial disclosure, the group also publishes quarterly operational updates that are distributed to all relevant parties.

Directors' shareholdings

The direct and indirect shareholdings of the directors of MMI as at 30 June 2018 are set out below. Directors have access to the group's shares through the open market.

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2018

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Jeanette Cilliers (Marais)*	189	-	189
Peter Cooper	292	150	442
Stephen Jurisich***	0	-	0
Niel Krige	-	408	408
Hillie Meyer**	190	150	340
Jabu Moleketi	-	112	112
Syd Muller	50	-	50
Khehla Shubane	78	7	85
Frans Truter	44	433	477
Johan van Reenen	-	144	144
Total listed shares	**843**	**1 404**	**2 247**

** Appointed as director of MMI Holdings Limited on 1 March 2018*
*** Appointed as director of MMI Holdings Limited on 15 February 2018*
**** 169 shares held in MMI*

SHAREHOLDING OF DIRECTORS WHO RESIGNED IN F2018

Listed shares	Direct beneficial '000	Indirect beneficial'000	Total '000
Nicolaas Kruger*	64	4 573	4 637
Mary Vilakazi**	-	1 703	1 703
Total listed shares	**64**	**6 276**	**6 340**

** Resigned as director of MMI Holdings Limited on 15 February 2018*
*** Resigned as director of MMI Holdings Limited on 31 March 2018*

Trades in MMI shares F2018	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Johan van Reenen	2018-03-07	R21.2357	47 130	Purchase	Indirect
Jeanette Cilliers (Marais)	2018-03-13	R21.6997	189 050	Purchase	Direct
Johan van Reenen	2018-03-20	R22.8946	56 765	Purchase	Indirect
Hillie Meyer	2018-06-13	R18.4202	107 790	Purchase	Direct
Syd Muller	2018-08-08	R21.1500	42 043	Transfer	Direct

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2017

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Peter Cooper	292	150	442
Niel Krige	-	408	408
Nicolaas Kruger	64	4 573	4 637
Jabu Moleketi	-	112	112
Syd Muller	8	42	50
Khehla Shubane	78	7	85
Frans Truter	44	433	477
Johan van Reenen	-	40	40
Mary Vilakazi	-	1 703	1 703
Total listed shares	**486**	**7 468**	**7 954**

SHAREHOLDING OF DIRECTORS WHO RESIGNED IN F2017

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Johan Burger*	12	942	954

** Resigned as director of MMI Holdings Limited on 22 November 2016*

EUROPEAN CALL OPTIONS ON MMI SHARES

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

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

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2018

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Peter Cooper	758	3 061	3 819
Stephen Jurisich	3	0	3
Hillie Meyer	26	18	44
Jabu Moleketi	6	14	20
JJ Njeke	17	-	17
Khehla Shubane	25	10	35
Frans Truter	21	164	185
Total listed shares	**856**	**3 267**	**4 123**

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2017

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Peter Cooper	758	3 061	3 819
Stephen Jurisich*	3	-	3
Jabu Moleketi	6	14	20
JJ Njeke	17	-	17
Khehla Shubane	25	10	35
Frans Truter	21	164	185
Total listed shares	**830**	**3 249**	**4 079**

** Appointed as director of MMI Holdings Limited 1 October 2016*

All changes in directors' MMI and RMI shareholding between 1 July 2017 and 30 June 2018 were published on SENS as prescribed. No changes in the above shareholding/interest occurred between 30 June 2018 and the date of approval of the annual financial statements.

MMI DIRECTORS' RMI SHAREHOLDING WHO RESIGNED IN F2017

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Johan Burger*	-	1 184	1 184

** Resigned as director of MMI Holdings Limited 22 November 2016*

MEMBERS AND ATTENDANCE OF MMI HOLDINGS LTD BOARD AND COMMITTEES

AS AT 30 JUNE 2018

	Holdings Board	Audit	Actuarial	Remuneration	Social, Ethics and Transformation	Fair Practices	Risk, Capital and Compliance	Nominations
Meetings held	**4**	**6***	**4**	**3**	**2**	**2**	**4**	**4**
Members				**Meetings attended**				
JJ Njeke	4[1]							4[1]
Louis von Zeuner	4	6					4[1]	4
Nicolaas Kruger[2]	2[2]		4[12]		1[2]	2[12]	2[2]	
Hillie Meyer[3]	2[3]				1[3]		2[3]	
Mary Vilakazi[4]	2[4]		1[4]					
Jeanette Cilliers (Marais)[5]	2[5]							
Risto Ketola[6]	2[6]		2[14]					
Peter Cooper	4			3[1]			4	4
Fatima Daniels (Jakoet)	3	5					4	
Stephen Jurisich	4		4[1]			2[1 11]		
Niel Krige	4		1[13]					
Jabu Moleketi	3			2	1			
Syd Muller	4	6			2[1]			
Vuyisa Nkonyeni	4						3	
Khehla Shubane	4				2	2		
Frans Truter	4	6[1]		2[9]			4	4
Ben van der Ross[7]	2[7]			1[7]	1[7]	1[1 10]		
Johan van Reenen	4			3			4	
Voyt Krzychylkiewicz[4]	1[8]							
Independent consultants**				**Meetings attended**				
George Marx						2		
Marli Venter			4					
David Park			4					
K Pather			4					

[1] *Chairperson*
[2] *Resigned 15 February 2018*
[3] *Appointed 15 February 2018*
[4] *Resigned 31 March 2018*
[5] *Appointed 01 March 2018*
[6] *Appointed 16 January 2018*
[7] *Retired 24 November 2017*
[8] Resigned 9 October 2017
[9] Appointed 02 March 2018
[10] Resigned 10 October 2017
[11] Appointed 10 October 2017
[12] Non-director member wef 16 February 2018
[13] Appointed 2 March 2018
[14] Appointed 26 February 2018

**A Special Audit Committee meeting was held on 29 September 2017*
*** External invitees and advisers attend Board and Committee meetings regularly. The list of attendees varies from time to time and is available upon request from the Group Company Secretary.*

Report of the Audit Committee

Composition and proceedings

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

The Audit Committee consists of four independent non-executive directors, and meetings are attended by key management representatives from the combined assurance forums. In addition, the MMI Group Chief Executive Officer (CEO) and the Finance Director (FD) attend all Audit Committee meetings. The external and internal auditors attend meetings by invitation, and they also meet independently with the members of the Audit Committee as and when required.

Additional details on the Audit Committee can be found on page 85 of this integrated report.

Terms of reference

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

The terms of reference, including roles and responsibilities, are aligned to the recommended practices of King IV, the Companies Act and other regulatory requirements. A further annual review of the terms of reference is currently underway.

Given the recent corporate scandals within the South African business environment the Audit Committee has critically assessed the adequacy of their terms of reference and functioning with specific reference and consideration to the lessons which could be learnt from these unfortunate events.

External audit

The Audit Committee is satisfied with the independence and objectivity of the external auditor in accordance with section 94(8) of the Companies Act, which includes consideration of the auditor's previous appointments, the extent of other work undertaken, and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors (IRBA). Requisite assurance was sought and provided by the external auditor that the internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The Audit Committee has approved a policy for the provision of non-audit services. Fees paid to the external auditors are disclosed in note 25 to the annual financial statements on page 220.

The Audit Committee recommended, and the shareholders at the MMI annual general meeting in November 2017 approved, PricewaterhouseCoopers as the external audit firm and Mr Andrew Taylor as the designated auditor responsible for performing the function of auditor for the 2018 year.

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

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

Internal audit

MMI entered into a strategic internal audit co-sourcing agreement with KPMG as external service provider two years ago.

MMI appointed Otsile Sehularo chief audit executive (CAE) to replace Ms Ashlene van der Colff, who was appointed as Chief Operating Officer for the group. The role of the CAE within MMI is supported by a more confined group internal audit (GIA) team, and the CAE is responsible for managing and coordinating the KPMG relationship. The Audit Committee is satisfied that the co-sourced GIA model with KPMG has resulted in a high performing, better quality and efficient GIA function for MMI. The co-sourced model has also improved the level of independent assurance and access to subject matter assurance expertise provided to the MMI Board and its committees.

The Audit Committee has held several meetings whereby the CEO of KPMG and other senior KPMG officials provided the Audit Committee with information on the developments at KPMG. The Audit Committee has been advised that KPMG is committed to the implementation of an independent investigation into the several serious issues concerning KPMG's activities in South Africa and to implement management actions in order to restore public trust in KPMG. The Audit Committee considered the developments at KPMG and its impact on the MMI business and has recommended the retention of KPMG as a co-source Internal Audit partner. The Audit Committee will continually review the co-source relationship and will also consider the outcomes of the Ntsebeza enquiry and the IRBA investigations.

The Audit Committee is responsible for ensuring that the internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The CAE, in discharging his duties, is accountable to the Board and the Audit Committee of MMI Holdings, which consists of MMI Holdings Ltd and its subsidiaries. The Audit Committee decides on the CAE's appointment and removal, and is also responsible for assessing the performance of the CAE and the internal audit function.

GIA operates according to the internal audit charter, which was approved by the Board. In order to remain dynamic and responsive to business needs, the risk-based internal audit plan for the 2019 financial year was approved by the Audit Committee, and is monitored on a quarterly basis.

The group continues to embed the combined assurance methodology, and the results were reported to the Audit Committee.

Internal financial controls (IFC)

A high-level review of the design, implementation and effectiveness of the combined group's IFC was performed in all material segments and segments. The IFC review provides comfort on the financial reporting controls, which are relied on for the preparation and presentation of the annual financial statements.

Nothing has come to the attention of the Audit Committee to indicate that the internal financial controls are not sufficiently adequate to support integrity in the presentation of the financial statements. This assessment was based on the results of the documented review noted above, information and explanations given by management and the GIA function, as well as discussions with the independent external auditors on the results of their audits.

Group Finance Director

Risto Ketola was appointed as MMI Group Finance Director in the current financial year. Risto who was previously the group CFO replaces Mary Vilikazi.

The Audit Committee has satisfied itself that Risto Ketola has the appropriate expertise and experience to act as Group Finance Director and that his team has established appropriate financial reporting procedures.

Governance of risk

The Board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance (RCC) Committee. The chairman of the RCC Committee is a member of the Audit Committee and likewise, the chairman of the Audit Committee is a member of the RCC Committee, which arrangement ensures that information relevant to these committees are transposed effectively. The Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting.

Integrated report

The Audit Committee has reviewed the integrated report of the group for the year ended 30 June 2018 and submits that management presented an appropriate view of the group's position and performance. The Audit Committee considers that the group accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards.

Sustainability

MMI is fully committed to good sustainability principles. The group strives to be financially sound, socially responsible and environmentally friendly, with good corporate governance as the overarching principle. In this regard, MMI supports the recommendations as set out in King IV.

Going concern

The Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and has made a recommendation to the Board in accordance with this assessment. The Board's statement on the going concern status appears on page 121 of this integrated report.

Meetings and effectiveness review

Number of meetings held in 2017/2018	6*
Members	**Meetings attended**
Frans Truter (chairman)	6
Fatima Daniels (Jakoet)	5
Syd Muller	6
Louis von Zeuner	6

*A special Audit Committee meeting was held on 29 September 2017.

In line with best practice and the King IV recommended practices, MMI conducted an Audit Committee evaluation (including a director self-assessment) in April 2017. The overall performance of the committee and the individual members confirmed an effective and well-performing committee. A further Audit Committee assessment will commence in due course.

FRANS TRUTER
Chairman of the MMI Audit Committee
4 September 2018

Risk management report

Introduction

MMI's risk philosophy recognises that managing risk is an integral part of generating shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

Risk management strategy

MMI's key risk management strategies are to:

- Understand the nature of the risks MMI is exposed to, the range of outcomes under different scenarios, and the capital required for assuming these risks.
- Manage shareholder value by generating a long-term sustainable return on the capital required to back the risks assumed.
- Ensure the protection of client interests by maintaining adequate solvency levels.
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis.
- Create a competitive long-term advantage in the management of the business with greater responsibility to all stakeholders.

Management and the Board

Risk management enables management to deal effectively with uncertainty and its associated risks and opportunities, enhancing the capacity to build stakeholder value.

The MMI Board is ultimately responsible for the end-to-end process of risk management, and for assessing its effectiveness. Management is accountable to the Board for designing, implementing and monitoring the risk management process and for integrating it into the day-to-day activities of the group.

The Board discharges these responsibilities through frameworks and policies approved and adopted by the Board and its designated committees, which direct the implementation and maintenance of adequate processes for corporate governance, compliance and risk management. The risk management framework applies across the business.

The chief risk officer (CRO) of MMI is the head of the risk function in the business, who is supported by individual risk type heads, segment-level risk management teams and their respective CROs. The head of the actuarial function provides assurance to the Board on the accuracy of calculations and appropriateness of the assumptions underlying the technical provisions and capital requirements, both from a regulatory and internal perspective.

Risk appetite

MMI's risk appetite is formulated by the Group Executive Committee and approved by the Board Risk, Capital and Compliance Committee, and expresses the level and types of risk which MMI is prepared to seek, accept or tolerate in pursuing its strategic objectives.

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

The setting of risk appetite is fundamentally driven by the dual, and sometimes conflicting, objectives of creating shareholder value through risk taking, while providing financial security for clients through appropriate maintenance of the group's ongoing solvency. MMI's appetite for exposure to the different types and sources of risk is aligned with the strategic vision of MMI to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.

Risk taxonomy

Business performance and strategic risk

For MMI, these are risks that can adversely affect the fulfilment of business and strategic objectives to the extent that the viability of a business is compromised. This includes strategic choice, strategic execution, business volume, expense and reputational risks, and the impact of the macroeconomic and business operating environment.

Long-term insurance risk

Long-term insurance risk for MMI is the risk that future claims and expenses will cause an adverse change in the value of long-term life insurance contracts 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. MMI also has exposure to health insurance risk in India and its African subsidiaries outside South Africa.

Short-term insurance risk

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

Credit risk

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, policy loans and scrip lending.

Market risk

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

Liquidity risk

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

Operational risk

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

Compliance risk

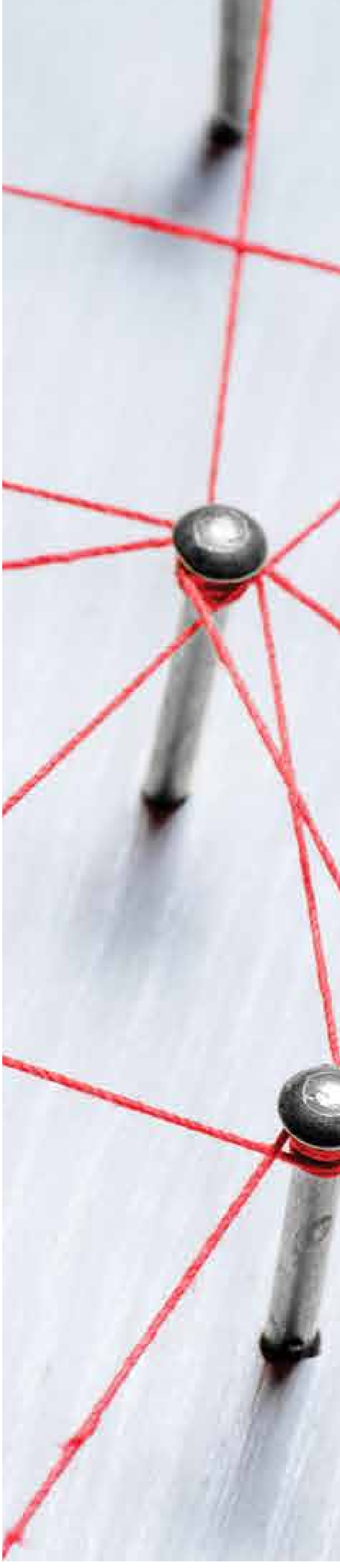
This is the risk of legal or regulatory sanctions, material financial loss or loss to reputation that MMI and its businesses may suffer as a result of its failure to comply with legislation, regulation, rules, related self-regulatory organisational standards or codes of conduct applicable to the activities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

Market conduct risk

This is defined as the risk of the organisation not delivering on fair client outcomes, which could result in loss of trust, reputation and market share with our clients and in the industry.

Remuneration report

MMI's remuneration philosophy is to recruit, motivate, reward and retain employees who believe in, and live by, our culture and values.

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Part 1: Background statement

MMI's remuneration report is set out under the following sections:

- **Part 1 –** A Background Statement regarding the group's remuneration philosophy and the governance of remuneration at MMI.
- **Part 2 –** An Overview of MMI's remuneration policy applicable to the coming year.
- **Part 3 –** The Implementation Report which deals with how we have implemented the remuneration policy during the past year.

MMI's remuneration philosophy

MMI's remuneration philosophy is to recruit, motivate, reward and retain employees who believe in, and live by, our culture and values. We endeavour to encourage entrepreneurship by creating a working environment that motivates high performance, so that all employees can positively contribute to the strategy, vision, goals and values of the group.

This philosophy, supported by a robust performance management practice, strives to set our employees' total remuneration package at a competitive level by benchmarking to the market, and providing incentives geared to agreed performance outcomes, where appropriate.

MMI believes that the long-term success of the group is directly linked to the calibre of employees that we employ and the working environment that we create. It is, therefore, imperative that we make a concerted attempt to align the best interests of our employees with that of our other stakeholders.

Remuneration Committee mandate and governance

MMI's Remuneration Committee is mandated by the Board to ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. In order to deliver on this mandate, the Remuneration Committee is responsible to develop, maintain and oversee the implementation of the remuneration policy, which is then tabled to the Board for approval.

The Remuneration Committee consists entirely of independent non-executive directors, and reviews and oversees the remuneration policy and practices across the group, as well as the implementation of the remuneration policy in respect of the group executive (Exco). The CEO and other members of Exco attend meetings by invitation, but do not vote and are not present when their remuneration is determined.

The Remuneration Committee had three meetings in 2018, with attendance set out in the table below.

Members	Meetings attended
Peter Cooper (chairman)	3
Jabu Moleketi	2
Frans Truter (appointed 2 March 2018)	2
Ben van der Ross (retired 24 November 2017)	1
Johan van Reenen	3

*The Remuneration Committee's full terms of reference, including its mandate as well as the Remuneration Policy, is available on **www.mmiholdings.com**.*

The Remuneration Committee has access to independent remuneration consultants to advise them on best practices, trends and regulatory changes, that are taken into account in formulating the remuneration policy, which is reviewed on an annual basis.

In support of its mandate, the Remuneration Committee performs the following functions:

- Ensure that the Company's remuneration framework is aligned to the King IV Report on Corporate Governance (King IV) and best practice.
- Review the pay and reward systems of the Company to ensure that they are sufficiently competitive to attract, motivate, reward and retain the right calibre of employees, and to enhance a performance culture.
- Review the remuneration of executive directors and executive management to ensure that it is market related, fair, responsible and transparent in the context of overall employee remuneration.
- Review the contracts of employment for Directors and Executive Committee Members, including the performance contracts, to ensure that the terms of these agreements comply with the group's requirements and best practice.
- Review and approve the annual balanced scorecard of the group, to ensure that the individual Key Performance Indicators included in the scorecard, and the target ranges for each, are appropriate as a basis for determining the level of short- and long-term incentives.
- Consider the proposed average annual increase in the group's guaranteed remuneration, ensuring that this reflects the relevant economic trends and group affordability constraints. Ensure that the minimum guaranteed salary is aligned to market benchmarks.

- Consider and approve the short- and long-term incentives schemes in operation in the group in support of the achievement of the group's strategic objectives. Ensure that these are benchmarked against the relevant comparator group, and that the remuneration outcomes of these schemes align with the financial outcome experienced by shareholders.
- Oversee the process of ensuring that unjustified differences in income at all levels in the organisation are addressed.
- Review the remuneration of non-executive directors to ensure it is market related, and recommend the remuneration of non-executive directors to the Board for approval at the AGM.

The impact of business performance on remuneration

The disappointing results of the group for the last two years made it particularly challenging for the Remco to balance the retention of key resources in the business, with the need to align to the outcome for shareholders. The destabilising effect of senior executive changes, and a strategic reset for the business, were additional factors that the Remco took into account.

The key financial metrics in MMI's balanced scorecard, which represent 65% of the overall scorecard KPI's, are core headline earnings, the value of new business and the return on embedded value. Below is a summary of the performance for the year in each of these metrics:

- MMI's diluted core headline earnings of R2 809m represent a decline of 12% year-on year. This was despite strong improvements in Momentum Corporate's group underwriting results, strong mortality and disability results across the group, as well as improved International results for remaining core operations. These positive factors were more than offset by increased investment in client engagement activities and specific technology investments to improve intermediary and client experience, the impact of a reinsurance correction and a reinsurance loss, including an allowance for higher future reinsurance premiums on Momentum Retail risk products, lower profits from the Momentum Retail legacy life products and weaker early duration lapse experience in Metropolitan Retail.
- The overall value of new business was disappointing and declined to R301m. This resulted in new business margins declining from 1.3% to 0.7% of premiums. Although overall sales volumes remained flat over the period, the margins were driven down by expenses increasing at a faster rate, significant assumption changes which partly resulted from the more realistic treatment of expenses that were previously classified as unallocated, and re-pricing of some products.
- Group embedded value declined to R39.6bn – June 2017 EV was R42.5bn. This equates to EV per share of R25.43 at 30 June 2018. The return on embedded value (ROEV) for the year was -1.1% with the ROEV on covered business (life insurance operations) increasing by 7.3% during the period.

Based on the above financial metrics, the overall MMI balanced scorecard resulted in a rating of 1.9 on a 5-point scale, with a 3-rating being on-target. This below-threshold performance resulted in the Remco deciding to allocate a discretionary variable remuneration pool (comprising both STI and LTI benefits) at a level 12% lower than the 2017 pool. It is also important to note that, as a result of the low ROEV for 2017 and 2018, the performance conditions on the long-term incentive plan were not met for the October 2018 and April 2019 vesting tranche, resulting in all performance units being forfeited. It is also highly unlikely that the performance conditions for the unvested tranches that will vest in 2019 and 2020, will be met.

In response to this challenging business environment, the Remco took the following actions:

- A decision was made to significantly reduce the participation in the long term incentive scheme going forward, to ensure that only senior executives that have a material impact on the group's performance, be included. A decision was also made to introduce a share appreciation rights scheme which is fully performance-based, to incentivise the senior executive management.
- The threshold for the deferral of short-term incentives was lowered to ensure the retention of staff.
- An average salary increase of 5.5% was approved, with the average increase for staff with a guaranteed package below R150 000 increasing by 6.5%. The average increase for Group Exco members was 4.7%.

Matters considered by the Remuneration Committee in 2018.

- Ongoing discussions around the implementation of changes to the remuneration policy and remuneration disclosure in terms of King IV.
- Benchmarked the executive management compensation to comparator groups.
- Benchmarked the non-executive directors' fees with the relevant survey data.

- Engaged with dissenting shareholders regarding the reasons for the more than 25% vote against the group's remuneration policy at the AGM that took place on 24 November 2017 (see page 103 for the actions taken by the Remuneration Committee to address the concerns raised by shareholders).
- Agreed the terms of the mutual separation arrangement with the previous Group CEO.
- Finalised the appointment of the group's new CEO, as well as the appointment of a Deputy CEO and three other Executive Committee positions, two of which were external and an internal promotion.
- Reviewed the benchmarks for short and long-term incentives and concluded that whilst the overall on-target variable incentives aligned with the market, MMI's long- and short-term incentive schemes have been updated as set out in Part 2 (Overview of MMI's Remuneration Policy).
- Reviewed the short-term incentive scheme balanced scorecard for 2018, and the formulation and approval of the 2019 Scorecard.
- Reviewed the calculation of the performance criteria related to the vesting of performance units in the long-term incentive scheme in October 2018 and April 2019.
- Considered and approved revised rules for the short- and long-term incentives schemes (refer further details provided in Part 2 (Overview of MMI's Remuneration Policy)).

Achievement of stated objectives of the remuneration policy

The Remuneration Committee is committed to ensure that the group remuneration policy and remuneration structures are fair and responsible, and that there is alignment between shareholder and employee interests. The Remuneration Committee believes that the policy supports the delivery of the group strategy in a responsible and sustainable manner.

Future focus areas

Given the significant changes in executive management over the past year, and the recent changes in the variable remuneration structure, the Remuneration Committee will be focusing on the following areas:

- The review and approval of the performance criteria applicable to the Share Appreciation Rights scheme to be implemented in the new financial year, to ensure appropriate alignment with shareholder interests.
- In the light of the fact that, for the past two years, an advisory vote against the remuneration policy of more than 25% was received, we will be engaging directly with shareholders regarding the current year remuneration policy vote, prior to the Annual General Meeting to be held in November 2018.
- Review the performance measures applicable to executive management, to ensure that the performance outcomes for executives fairly reflect the financial outcome for shareholders.

Shareholder voting

At MMI's 24 November 2017 AGM, the remuneration policy received a 68% advisory vote from our shareholders. We have solicited feedback from shareholders (and proxy voting advisers) regarding their concerns. Set out on the next page are the MMI responses to the shareholder concerns.

Shareholder concern raised	Feedback and actions
Additional large loss-of-office payment to an exiting executive director	The employment contracts for members of executive management do not commit the company to make service payments in the event of termination of employment on account of their failures. Upon termination of employment, the company will make payments as required in terms of legislation, and the consequences of unvested short-term and long-term incentives will be governed by the rules of the incentive plans and the basis for termination of employment. The Remuneration Committee however has the discretion to negotiate mutual separation agreements. Certain contractual payments were made to the previous CEO who left the group in February 2018, in terms of a mutual separation agreement. The details of this are set out in the Implementation Report.
The use of retention shares in the long-term incentive scheme is not in line with best practice.	The Remuneration Committee decided to change the long-term incentive plan going forward. A new Share Appreciation Rights scheme has been introduced in terms of which all awards are subject to explicit performance conditions, with participation limited to executives and senior managers.
The use of a threshold vesting level for long-term incentives is not considered appropriate – there should be no vesting below the target.	The new Share Appreciation Rights scheme, where performance is measured against two financial targets and a competitor total shareholder return index, does not provide for vesting below the target.
A three-year term for long-term incentives is considered too short.	In response to shareholders concerns and to ensure our incentives remain competitive, we have extended the term of the new Share Appreciation Rights scheme. This scheme is subject to a three-year vesting period, with a holding period of a further two years. Performance is measured over a three year period with settlement taking place in equal tranches after three, four and five years.
Additional performance measures should be introduced for the long-term incentive scheme, in addition to the ROEV.	The new Share Appreciation Rights scheme vesting is subject to two financial performance conditions as well as MMI's total shareholder return relative to a competitor index. These performance conditions are independent of one another and will each determine one third of the vesting.
Insufficient details regarding non-financial performance measures in the balanced scorecard.	Further details have been included regarding the non-financial performance measures for 2019 in Part 2 (Overview of MMI's Remuneration Policy), with the outcome for 2018 being reported on in Part 3 (Implementation Report).

Part 2: Overview of MMI's remuneration policy

The remuneration policy is based on the following fundamental principles:

Alignment to the group strategy – The remuneration policy is aligned with the overall business strategy, objectives and values of the group without being detrimental to the interests of its customers.

Pay for Performance – Remuneration is structured around incentivising a performance culture in the organisation, with differentiation based on performance taking place for guaranteed and variable remuneration.

Risk-taking versus fiduciary roles – Regarding the manner in which variable incentive payments are awarded, distinctions are drawn between employees who operate in a risk-taking capacity and those who fulfil fiduciary roles (such as heads of control functions). As such the variable incentives for employees in fiduciary roles do not depend on the performance of the group, but are determined only with reference to the performance of the individual. This is to ensure that the independence of employees who act in a fiduciary capacity is not unduly compromised, and conflict of interests are minimised.

Benchmarking and competitiveness – Roles are benchmarked based on a job grading process, and then compared with market benchmarks in the financial services sector. The group targets the 50th percentile of the market, although there is differentiation above and below the market median depending on the level of experience, scarce skills and level of performance.

Talent attraction – Remuneration and benefits are considered a key lever in ensuring that top talent is attracted, motivated and retained by the organisation, to ensure the achievement of the group's strategic objectives.

Consistent and fair practices – The group's remuneration practices provide a basis for the fair and equitable treatment of employees, yet allow for differentiation where justified, for instance in relation to scarce skills, level of experience and performance.

Flexibility – The remuneration policy offers flexibility for the customisation of remuneration and benefits to cater for better work/life balance and specific business needs.

Governance – Remuneration practices are designed to ensure adherence to the principles of good corporate governance, as depicted in best practice and regulatory frameworks (such as King IV and Solvency Assessment and Management).

Remuneration structure

MMI's remuneration structure supports the business need to offer an appropriate mix of fixed and variable remuneration, depending on the level and complexity of the specific role. The remuneration structure, which is made up of total guaranteed pay (TGP), short-term incentives (STI) and long-term incentives (LTI), forms the basis of the overall remuneration applicable to all employees as follows:

Remuneration element	Purpose	Practical implementation
Total Guaranteed Pay (TGP) – Cash Salary plus benefits.	To provide the core guaranteed element of remuneration for the role.	TGP's are benchmarked against the financial services market, targeting the 50th percentile.
Short-term incentives (STI).	To support a high-performance culture within the organisation through reward for performance, and to ensure retention through the deferral of STI's above a threshold.	STI's are discretionary, and are awarded as a percentage of TGP, which varies according to the level and complexity of the role. The actual award is based on a weighted mix of the level of performance achieved by the group, the division and the individual, using balanced scorecards that are weighted towards financial outcomes. Above a certain threshold, STI's are deferred to enhance retention and improve shareholder alignment.
Long-term incentives (LTI).	To incentivise executive and senior management to achieve performance targets that align with shareholder interests.	LTI's are discretionary, and are awarded based on a percentage of TGP required to meet a targeted portfolio size. LTI's are subject to performance criteria that are approved by the Remuneration Committee.

Total guaranteed pay

All employees, including executive directors, managing executives, heads of control functions and other employees who may have a material impact on the risk exposure of MMI, receive TGP irrespective of company performance.

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

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

Fair and responsible remuneration

MMI is cognisant of its internal wage gap. As envisaged by the principles of fair and responsible remuneration, the Remuneration Committee considered the following:

- A review of the minimum guaranteed package of employees at the basic skilled level to ensure that this is set at a level that offers employees a decent standard of living. The current minimum guaranteed package amounts to R120 500 per annum.
- Ensuring that the average increases in guaranteed packages at executive and senior levels are lower than for general employees, reflecting the reality that inflationary pressure is more marked amongst general employees. For the current remuneration review cycle, the average increase for executive directors was 5.1% and that for the rest of the organisation was 5.5%.
- A review of the income differentials at the various employee levels, to ensure that there is no unfair discrimination based on race, gender or age.
- Ensuring that pay is differentiated according to performance of both the company and the individual, with short-term incentives based on the outcome of the annual balanced scorecard, and the vesting of long-term incentives based on performance relative to predetermined performance criteria.
- Additionally, and when considering increases, the Remuneration Committee takes into account factors including, but not limited to, inflation, affordability, market trends, competitor remuneration, and scarcity of skills.

Short-term incentives

The group's key STI is a discretionary performance bonus pool, paid annually as a percentage of an individual's TGP, along with a deferral into the long-term incentive scheme above a set threshold. Most employees are eligible to participate in the STI, excluding employees that are already on pay-for-performance contracts, including tied agents that are paid on a commission basis.

The details of the performance targets of the group's STI scheme for 2019 are set out below:

KPI	Weighting	2019 target
Normalised headline earnings	30%	R2 950m
Return on embedded value	15%	13%
Value of new business	15%	R385m
Strategic objectives: • **Client net promoter score.** • **Momentum distribution footprint growth.** • **Metropolitan agent productivity.** • **Exit loss-making operations in Africa.** • **Increase in engaged Multiply membership.** • **Success of India and African Bank JV's.**	40%	

The table on the previous page relates to group objectives. In addition, each major business unit has its own scorecard that aligns with the group scorecard, but contains business unit specific targets and objectives.

Group objectives are reviewed and approved by the Remuneration Committee. Business unit objectives are approved by the Group CEO. Individual objectives must be agreed with the employee's line manager or team leader. For Executive Committee members, objectives are agreed with the CEO (and approved by the Remuneration Committee), while the CEO's strategic objectives are agreed with the Board.

Meeting the group's objectives is paramount. Performance against the group's targets determines the size of the aggregate STI pool. The performance of each business unit against its scorecard determines how the aggregate STI pool gets distributed.

The financial KPI's represent the key financial metrics that drive value generation, whilst the strategic objective KPI's represent the key non-financial deliverables against which executive management are measured.

Details regarding the actual performance of MMI in terms of the 2018 balanced scorecard are set out in Part 3 (Implementation Report) on page 113.

Vesting level

The group's overall STI pool is based on an on-target percentage of core headline earnings in terms of the group scorecard. Performance in excess of target results in a pool above 100% of the on-target pool, and performance below the target results in a pool below 100%. Should the group perform below target, the Remuneration Committee retains the discretion to allocate an incentive pool to reward performing divisions and individuals.

The group STI pool is then allocated to divisions based on their own scorecard ratings, again resulting in a performance-adjusted pool.

The individual employee vesting level is based on an on-target vesting percentage of TGP, driven by the level and complexity of the role, adjusted for the actual weighted performance of the individual, based on a mix of divisional and individual performance ratings.

Maximum STI cap

The maximum cap on the STI for all employees and executives (inclusive of the portion of the STI deferred) is equal to 200% of TGP.

Deferral of STI

For STI's above a minimum threshold, 50% of the STI is paid in cash and the other 50% is deferred in the form of LTI benefits. The following STI deferral policy applies:

Quantum of STI	Deferral terms
Below R100 000	No deferral and bonus is paid in cash.
Above R100 000	The first R100 000, plus 50% of the amount above R100 000 is paid in cash, with the remainder being deferred in three equal tranches, vesting after one, two and three years.

Even though STI's are awarded for past performance, the above deferral mechanism assists with the retention of key talent and scarce resources, whilst also providing exposure to share price growth. This also allows the Remuneration Committee the right to invoke the pre-vesting forfeiture of STI's should the performance of the group, division or individual deteriorate significantly prior to vesting (for further details regarding the other circumstances in which pre-vesting forfeiture can be invoked, please see the pre-vesting forfeiture section below).

Long-term incentives

The group currently operates the following LTI schemes:

- The MMI Outperformance Plan (OPP).
- The MMI Long-term Incentive Plan (LTIP).
- The MMI Share Appreciation Rights scheme (SAR).

All the above schemes are cash settled phantom share plans with vesting periods ranging from 3 to 5 years. In addition, where dividends are paid these are reinvested as additional units that vest in line with the vesting date of the cash settled units to which they relate.

OPP

The OPP was a once-off allocation in October 2014, of which 60% will vest in October 2018, and the remaining 40% will vest on October 2019. Full vesting (100%) will only take place should the annualised group ROEV exceed nominal GDP growth + 6% over the four- and five- year performance periods, ending June 2018 and June 2019 respectively. The annualised group ROEV from inception to the end of June 2018 is 6.8%, which is below the GDP + 6% hurdle rate, therefore the first 60% of the OPP will be forfeited in October 2018. Details regarding this unvested once-off LTIP award attributed to executive directors are disclosed in the LTI table in Part 3 (Implementation Report) on page 116.

LTIP

The group adopted the LTIP in 2011. The LTIP is a cash-settled scheme comprising both retention and performance units that reference their value to the MMI share price. When dividends are paid these are reinvested in the scheme, and these dividend units vest in line with the LTIP tranches to which they relate. As from 1 July 2018, participation in the LTIP is limited to only the deferral of STI payments above a threshold, as set out in the STI section above, and any sign-on LTIP allocations to replace the current share scheme benefits at a previous employer. Prior year allocations from the LTIP will run off in accordance with the vesting dates of the remaining tranches. As explained under the STI section above, the LTIP units relating to STI deferrals will vest in equal tranches over a one, two and three year period. As performance was taken into account when making the award, no further prospective performance conditions will apply to the deferred STI units.

The existing annual LTIP allocations to Executive Committee members range from 180% of TGP annually to the CEO, to between 100% and 150% of TGP for the other Exco members.

The performance conditions for the existing performance units allocated out of the LTIP, along with the vesting profile, are set out below:

Threshold	Target	Stretch
Annualised ROEV over the performance period (normally three years) to meet/exceed the 10-year zero-coupon RSA bond yield at the start of the financial year (defined as risk free rate) + 1.5%.	Annualised ROEV over the performance period (normally three years) to meet/exceed the risk free rate + 3%.	Annualised ROEV over the performance period (normally three years) to meet/exceed the risk free rate + 6%.

Details regarding the LTIP performance vesting outcomes for the tranche vesting in October 2018, are set out in Part 3 (Implementation Report) on page 114.

SAR

The SAR scheme is a new performance-based cash settled scheme to be implemented in October 2018, in terms of which a small group of executives and senior managers are allocated Share Appreciation Rights that reference their value to the growth in the MMI share price over the vesting period. Performance is measured over three years to determine the vesting percentage, with settlement taking place in three equal tranches after three, four and five years. The following performance conditions have been introduced for this scheme, with each determining one third of the vesting:

- An annualised ROEV over the performance period to meet or exceed the 10-year zero-coupon RSA bond yield (defined as risk free rate) + 3% – 33% weighting.
- A Total Shareholder Return (TSR), comprising the share price growth plus dividends reinvested, over the performance period, to meet or exceed the growth in an index of MMI's main listed insurance sector competitors over the performance period – 33% weighting.
- Normalised Headline Earnings growth over the performance period to meet or exceed 11% growth per annum – 33% weighting.

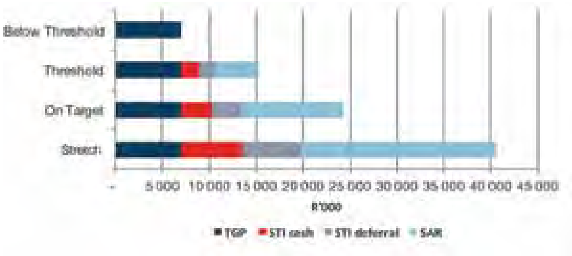
Executive director pay mix

On an executive management level, the graphs on the next page shows the pay mix for the CEO, Deputy CEO and the FD respectively, at threshold, target and stretch levels of performance. The pay mix at executive level is weighted towards at-risk variable pay, and in turn the variable pay is contingent on meeting financial and strategic performance targets. The objective is to achieve a balanced pay mix appropriate for the job, level and performance of each executive.

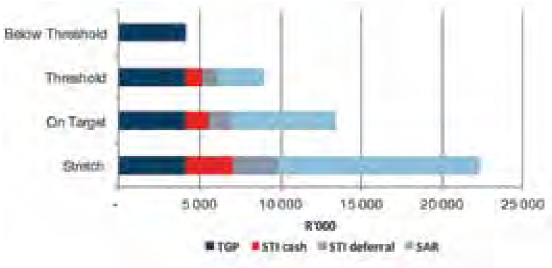
The SAR figures in the graphs on the next page have been based on the new SAR scheme to be awarded in October 2018. The SAR values at the various levels of performance have been determined as follows:

- Below threshold – none of the three performance conditions of the new SAR scheme are achieved.
- Threshold – only one of the three performance conditions is achieved resulting in 33% vesting, along with share price growth equal to the risk free rate plus 1.5% per annum until the performance measurement date in October 2021.
- Target – all three performance conditions are achieved, along with share price growth equal to the risk free rate plus 3.0% per annum until the performance measurement date in October 2021.
- Stretch – all three performance conditions are achieved, along with share price growth equal to the risk free rate plus 6.0% per annum until the performance measurement date in October 2021.

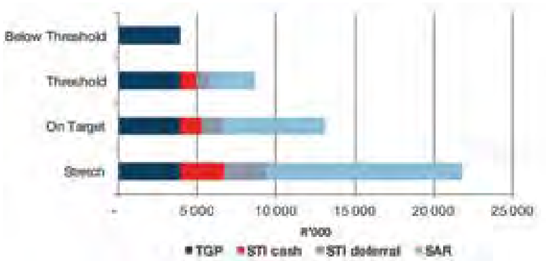
Chief Executive Officer – Hillie Meyer



Deputy CEO – Jeanette Cilliers (Marais)



Finance Director – Risto Ketola



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

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

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

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

Executive and senior management – service agreements

Sign-on awards

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

Restraints of trade

The Remuneration Committee may, from time to time, conclude restraint of trade agreements with members of executive management. These restraint of trade agreements may be contractual only i.e. unpaid or, where appropriate, subject to an appropriate payment, and are aligned with the overall business strategy of the group. Disclosure of these payments will be made in line with any applicable regulatory requirements. There are currently no restraint of trade agreements in place.

Payments on termination of employment

The employment contracts for members of executive management do not compel the Remuneration Committee to make any payments in the event of termination of employment on account of their failures. Upon termination of employment, any payments made to that executive will be as required in terms of legislation, and the consequences of unvested STIs and LTIs will be governed by the rules of the incentive plans and the basis for the termination of employment. The Remuneration Committee has discretion regarding the terms of such agreements (to be exercised on a case-by-case basis). No payment shall be made due to a termination based on a lack of performance.

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

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

The following table sets out the how payments under each element of remuneration are dealt with, for the various reasons for termination:

	Reasons for Termination			
	Voluntary resignation	**Dismissal/ termination for cause**	**Normal & early retirement, retrenchment and death**	**Mutual separation**
TGP	Paid over the notice period or as a lump sum.	No payment.	Normally no payment is made, however in some cases pre-retirement leave is paid in terms of certain legacy employment contracts.	Paid over the agreed notice period or as a lump sum.
STI	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination.	Automatic forfeiture of unvested deferred STI units.	All unvested deferred STI units vest on the date of termination (as these have already been subject to past performance criteria, and are therefore earned).	Discretion applied based on terms of the separation agreement.
LTIP	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination.	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination.	In respect of retention units, a pro rata portion will vest on termination date. In respect of performance units, the pro rata portion shall vest subject to the measurement of performance to date.	Discretion applied based on terms of the separation agreement.

Retention payments

The Remuneration Committee has the discretion to make cash retention payments to executives and key employees in exceptional circumstances. Such retention payments are subject to an appropriate clawback period, and may be subject to certain minimum performance hurdles.

Minimum shareholding requirements

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

The CEO's requirement (expressed as a percentage of TGP) is 200%, and for other executives 100%, to be achieved within 5 years of being appointed to the Executive Committee.

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

Non-executive director fees

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

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

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

Voting statement (Non-binding advisory vote on the remuneration policy)

This remuneration policy is subject to an advisory vote by shareholders at the 26 November annual general meeting.

Shareholders are requested to cast a non-binding advisory vote on Part 2 of this remuneration report, as it appears above. The company will engage with the dissenting shareholders should the votes against the remuneration policy exceed 25%.

Part 3 – Implementation report

Changes to executive directors on the Board

During the current year the following changes in executive directors took place:

- On 15 February 2018, Nicolaas Kruger stepped down from the Board and as CEO as part of a mutual separation arrangement.
- On 15 February 2018, Hillie Meyer was appointed to the Board as CEO on a three-and-a half-year contract that includes standard period provisions. In terms of this contract, he will earn a guaranteed package to be reviewed annually, and he will participate annually in the group's STI scheme. His long-term incentive is represented by LTIP performance units allocated shortly after the commencement of his contract, and a SAR to be allocated on 1 October 2018, both with a vesting period ending on 1 October 2021. The group's standard performance conditions in terms of all LTIP and SAR units will apply, with a measurement period from 1 July 2018 to 30 June 2021. Whilst vesting of the LTIP and SAR will take place on 1 October 2021, settlement of the LTIP and SAR (if any) will take place in three equal tranches on 1 October 2021, 1 October 2022 and 1 October 2023, with the settlement value being determined based on the MMI share price at each settlement date.
- On 1 March 2018, Jeanette Cilliers (Marais) was appointed to the Board and as Deputy CEO.
- On 31 March 2018, Mary Vilakazi resigned from the Board and as Deputy CEO.
- On 16 January 2018, Risto Ketola was appointed to the Board as Finance Director.

Executive directors – single figure disclosure

The South African Companies Act, 71 of 2008 (Companies Act) has defined the term prescribed officer. The duties and responsibilities of directors under the Companies Act also apply to prescribed officers. The Remuneration Committee has considered the definition of prescribed officers and resolved that the executive directors are the prescribed officers of MMI.

Remuneration earned by the executive directors in accordance with the single figure remuneration disclosure guidance set out in King IV, is set out below:

	Months as executive director		Salary		Company contributions		Subtotal: Total guaranteed package		Short-term incentives[6]		Retention payments[6]		Value of long-term incentives[7]		Contractual payments		Total remuneration	
			R'000		R'000		R'000		R'000		R'000		R'000		R'000		R'000	
	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17
Hillie Meyer[1]	5	-	2 865	-	-	-	2 865	-	2 000	-	-	-	-	-	-	-	4 865	-
Nicolaas Kruger[2]	8	12	3 981	5 723	562	832	4 543	6 555	-	-	3 500	-	2 793	9 520	9 292	-	20 128	16 076
Jeanette Cilliers (Marais)[3]	4	-	1 235	-	99	-	1 334	-	1 250	-	-	-	-	-	7 500	-	10 084	-
Mary Vilakazi[4]	9	12	2 963	3 174	578	691	3 541	3 865	-	-	-	-	-	4 477	-	-	3 541	8 342
Risto Ketola[5]	6	-	1 627	-	202	-	1 829	-	3 750	-	-	-	1 101	-	-	-	6 680	-
			12 671	**8 897**	**1 441**	**1 523**	**14 112**	**10 420**	**7 000**	**-**	**3 500**	**-**	**3 894**	**13 997**	**16 792**	**-**	**45 298**	**24 418**

[1] Appointed as executive director and Group CEO on a fixed term contract commencing on 15 February 2018 and ending on 31 October 2021, that includes standard notice period provisions.
[2] Stepped down as executive director and Group CEO on 15 February 2018. The contractual payment relates to an exit payment made in February 2018, as well as his monthly salary which he will receive until December 2018, in terms of a mutual separation agreement. In addition he will receive any LTIP vesting entitlements until 31 December 2018. LTIP benefits vesting beyond this date will be forfeited.
[3] Appointed on 1 March 2018 as executive director and deputy CEO. The contractual payment relates to a sign-on award subject to a claw back should she resign from the employ of the group within the next two years.
[4] Resigned on 31 March 2018 as executive director and deputy CEO, and consequently forfeited all long-term incentives. The clawback of the retention payment made in September 2017 (R4m), in terms of the retention agreement, has been enforced and has been offset against the retention payment made.
[5] Appointed as executive director and Group Finance Director on 16 January 2018.
[6] No STI payments were made to executive directors related to 2017. A retention payment was made in 2018 subject to clawback upon resignation up to 25 September 2018. The 2018 short-term incentives were approved by the Remuneration Committee in August 2018, and are subject to deferral into the LTIP as set out in Part 2 (Overview of MMI's remuneration policy) on page 106.
[7] The LTIP and OPP calculation basis is:
2017:
- *For LTIP performance units - the value is based on the value of the number of October 2014 performance units vesting in October 2017, on the basis of performance conditions measured on 30 June 2017. In terms of these LTIP performance conditions the vesting percentage is 88%.*
- *For OPP performance units - as there are no performance units vesting in the coming financial year, the value placed on these is Nil.*
- *For LTIP retention units - the value is based on the number of retention units awarded during the 2017 year at the share price on award date being R22.92 per share.*
- *The year-end closing share price used for the determination of the value of performance units was R20.24 per share.*

2018:
- *For LTIP performance units - the value is based on the value of the number of October 2015 performance units vesting in October 2018, on the basis of performance conditions measured on 30 June 2018. In terms of these LTIP performance conditions no performance units will vest.*
- *For OPP performance units - the value is based on the value of the number of October 2014 performance units vesting in October 2018, on the basis of performance conditions measured on 30 June 2018. In terms of these OPP performance conditions no performance units will vest.*
- *For LTIP retention units - the value is based on the number of retention units awarded during the 2018 year at the share price on award date being R18.42 per share.*

- *The year-end closing share price used for the determination of the value of performance units was R17.67 per share.*

[8] The total guaranteed package in the table on the previous page represents cash payments made during the financial years ending 30 June, whereas the remuneration set out in the TGP table below represent amounts granted as part of the annual remuneration review on 1 September annually. As a result these amounts will not agree.

COMPANIES ACT DISCLOSURE: EXECUTIVE DIRECTORS

	Salary		Company contributions		Subtotal : total guaranteed package		Short-term incentives		Retention payments		Long-term incentive payments		Contractual payments		Total remuneration	
	R'000		R'000		R'000		R'000		R'000		R'000		R'000		R'000	
	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17
Hillie Meyer	2 865	-	-	-	2 865	-	-	-	-	-	-	-	-	-	2 865	-
Nicolaas Kruger	3 981	5 723	562	832	4 543	6 555	-	3 148	3 500	-	10 616	12 192	9 292	-	27 951	21 895
Jeanette Cilliers (Marais)	1 235	-	99	-	1 334	-	-	-	-	-	-	-	7 500	-	8 834	-
Mary Vilakazi	2 963	3 174	578	691	3 541	3 865	-	1 990	-	-	4 391	4 343	-	-	7 932	10 198
Risto Ketola	1 627	-	202	-	1 829	-	-	-	-	-	-	-	-	-	1 829	-
Preston Speckmann	-	-	-	-	-	-	-	-	-	-	-	-	-	10 914	-	10 914
Executive Directors	**12 671**	**8 897**	**1 441**	**1 523**	**14 112**	**10 420**	**-**	**5 138**	**3 500**	**-**	**15 007**	**16 535**	**16 792**	**10 914**	**49 411**	**43 007**

The table above sets out the remuneration of the executive directors in terms of the requirements of Section 30 (4)(4)(6) of the Companies Act 2008. The table includes all remuneration paid to executive directors during the year, whereas the single figure remuneration disclosure above is based on the King IV definition of executive remuneration.

Termination of employment payments

As set out in the single figure remuneration table above, Nicolaas Kruger stepped down as executive director and CEO on 15 February 2018. The terms of the mutual separation resulted in the following payments being made:

- He will continue to receive his monthly salary during a garden leave period ending on 31 December 2018. During this period he may not consult and/or sit on the Board of any entity that competes directly or indirectly with MMI, without the consent of the Chairman of the Board of MMI.
- He will continue to receive any vested amounts in terms of the rules of the LTIP and OPP schemes until 31 December 2018, whereafter any unvested units shall be forfeited. Given that the LTIP performance units will not vest in October 2018, he will only receive vested retention units with a value at 30 June 2018 of R2.1m.
- An exit payment of R7m was paid in lieu of all forfeited future LTIP retention units.

Total guaranteed package – executive directors

The total guaranteed packages (TGP) of the executive directors are set out in the table below, and are effective on 1 September annually.

	TGP			
	1 Sept 2018	31 Aug 2018	Actual % increase	Annualised % increase
Hillie Meyer	7 075	6 875	2.9%	5.0%
Jeanette Cilliers (Marais)	4 100	4 000	2.5%	5.0%
Risto Ketola	3 900	3 700	5.4%	5.4%

Due to the fact that the CEO and Deputy CEO were appointed during the year, their TGP increase percentages have been annualised based on the period from appointment to the 1 September 2018 increase date. The overall average percentage increase for executive directors, based on the annualised percentage, is 5.1%, whilst the average increase for all MMI staff was 5.5%.

Performance outcomes for 2018

Both components of variable remuneration, being short-term incentives (STI) and long-term incentives (LTI), are subject to performance criteria set at the beginning of the performance period being measured. Set out on the next page are the performance outcomes for both the STI and LTI benefits for the current year.

Short-term incentives

Short-term incentives (STI) are determined with reference to MMI's performance in terms of the annual balanced scorecard. The following table sets out the various key performance indicators, along with the targets for each and the actual results achieved for 2018. The overall rating is a 1.9 score (on a 5-point scale, with a 3-rating being on target).

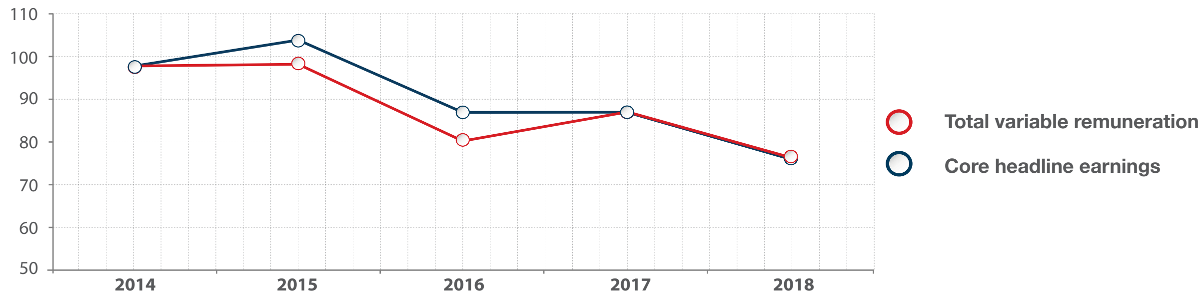
Key performance indicator	Weighting	2018 target	Actual	Rating achieved
Core headline earnings	25%	R3 050m	R2 809m	2.3
Value of new business	20%	R675m	R301m	0.5
Return on embedded value (excluding investment variances)	20%	13.25%	(1)%	0
Strategic objectives				
Distribution • Momentum footprint growth. • Metropolitan average productivity per agent. • Metropolitan African Bank insurance JV targets.	10%	Board assessment	Partially achieved	2.6
Client engagement • Momentum – Multiply membership and engagement levels. • Momentum – Digital solutions for clients and engagement. • Corporate – Multiply membership and engagement.	5%	Board assessment	Partially achieved	2.6
Product, services and optimisation • Metropolitan – client value proposition (delivery plans). • Optimisation, including exits from loss-making entities (Africa, UK and elsewhere).	10%	Board assessment	Partially achieved	2.6
Transformation	10%	B-BBEE scorecard	Level 3 contributor	3.3

The total variable remuneration pool is determined with reference to the group's scorecard. Due to the group not meeting the threshold performance level for the year, the Remco agreed to approve a discretionary pool that is 12% lower than the prior year variable pool. In approving the discretionary variable pool the Remco took the following into account:

- The need to retain key resources in the business to support the turnaround in the group's performance over the next few years. This is especially important in the light of the significant changes in executive management during this year.
- The need to reward businesses and individuals that have met or exceeded their performance targets.
- The fact that the LTIP performance units vesting in October 2018 will be forfeited, and the strong likelihood that the LTIP performance units vesting in October 2019 and 2020 will also be forfeited.

The graph on the next page illustrates the decline in the variable remuneration pool since 2014, in line with the decline in core headline earnings over the same period (indexed to 100 in 2014):

Earnings relative to variable remuneration pool



The increase in the variable remuneration pool in 2017 related to an additional allocation of LTIP units, a large portion of which is not expected to vest in 2020 due to the low ROEV in 2018.

Short-term incentives awarded in cash and deferred – executive directors

Set out below are the short-term incentives awarded to executive directors for the 2018 financial year, payable in the 2019 financial year, subject to the short-term incentive deferral rules as referred to in Part 2 of the remuneration report.

	Approved STI	Annualised % of TGP	Settled as follows	
	2018	**2018**	**Cash**	**Deferred into LTIP**
Hillie Meyer	2 000	63%	1 050	950
Jeanette Cilliers (Marais)	1 250	91%	675	575
Risto Ketola	3 750	96%	1 925	1 825

The individual performance ratings for the executive directors are determined based on a mix between their achievement of individual objectives, and the overall MMI scorecard. This ensures strong alignment between the incentive outcomes for individuals and the overall performance of the group.

Long-term incentive vesting and anticipated vesting of outstanding awards.

LTIP

The performance unit component of the LTIP allocations are subject to an ROEV target that is set at the allocation date. Executive directors have a minimum exposure to performance units for 80% of their total LTIP allocation. The following table summarises the actual performance to date for all outstanding LTIP tranches:

LTIP tranche	Performance target	Actual ROEV[1]
Notional shares issued in 2015 and vesting in 2018 - Annualised performance for the 36 months – 1 July 2015 to 30 June 2018	9.1%	5.8%
Notional shares issued in 2016 and vesting in 2019 - Annualised performance for the 24 months – 1 July 2016 to 30 June 2018	9.3%	2.4%
Notional shares issued in 2017 and vesting in 2020 - Annualised performance for the 12 months – 1 July 2017 to 30 June 2018	9.4%	(1.1)%

[1] *Average annualised percentages, measured since inception of each tranche up to 30 June 2018.*

As a result of the above, the LTIP performance units vesting in October 2018 will be forfeited.

OPP

The OPP comprises only performance units, and these are subject to an ROEV target of 6% above the South African GDP rate, with a measurement period from 1 July 2014 to 30 June 2018 (for the first 60% vesting), and from 1 July 2014 to 30 June 2019 (for the remaining 40%). None of the current executive directors participated in the OPP, as this once-off allocation took place in 2014, however the ex-CEO Nicolaas Kruger did participate in this scheme, as did the ex-Deputy CEO Mary Vilakazi. The following table summarises the actual performance to date for this scheme:

OPP tranche	Performance target	Actual ROEV[1]
Units issued in 2014 and vesting in 2018 (60%) - Annualised performance for the 48 months – 1 July 2014 to 30 June 2018	12.2%	6.8%
Units issued in 2014 and vesting in 2019 (40%) - Annualised performance for the 48 months – 1 July 2014 to 30 June 2018	12.2%	6.8%

As a result of the above, the OPP units vesting in October 2018 will be forfeited.

Long-term incentives – executive directors

The table on the next page provides an overview of the LTI awarded during the year, forfeited, and the indicative value of LTIs not yet vested (outstanding LTI) for the executive directors. It further illustrates the cash value of LTI delivered during the year.

Names	Opening number on 1 July 2016	Granted during 2017[1]	Forfeited during 2017	Vested during 2017	Closing number on 30 June 2017	Cash flow on settlements 2017[2]	Estimated closing fair value on 30 June 2017[3]	Granted during 2018[1]	Forfeited during 2018	Vested during 2018	Closing number on 30 June 2018	Cash flow on settlements 2018[2]	Estimated closing fair value on 30 June 2018[3]
	'000	'000	'000	'000	'000	R'000	R'000	'000	'000	'000	'000	R'000	R'000
Nicolaas Kruger													
LTIP - retention units	371	134	-	(158)	347	3 676	7 007	152	-	(166)	333	3 201	5 891
LTIP - performance units	1 179	532	-	(378)	1 333	8 516	14 795	1 047	(40)	(401)	1 939	7 415	17 388
OPP - performance units	1 598	113	-	-	1 711	-	6 500	92	-	-	1 803	-	1 179
Mary Vilakazi													
LTIP - retention units	156	83	-	(38)	201	869	4 067	87	(208)	(81)	-	1 553	-
LTIP - performance units	478	268	-	(152)	595	3 474	6 263	587	(1 029)	(154)	-	2 838	-
OPP - performance units	799	57	-	-	856	-	3 250	46	(902)	-	-	-	-
Hillie Meyer[5]													
LTIP - performance units													
Award date - 9 April 2018	-	-	-	-	-	-	-	1 246			1 246	-	22 017
Jeanette Marais[5]													
LTIP - performance units													
Award date - 1 April 2018	-	-	-	-	-	-	-	271			271	-	4 034
Risto Ketola													
LTIP - retention units													
Grant date - 1 October 2016	-	79			79	-	1 589	4			83		1 460
Grant date - 1 October 2017								56			56		990
LTIP - performance units													
Award date - 1 October 2016	-	236			236	-	1 244	13			249		1 217
Award date - 1 October 2017								224			224		3 444

[1] Comprises new awards and grants during the year, dividend units on existing awards and grants, and deferred bonus units in terms of the STI deferral policy.
[2] Represents the cash settled on vesting date, including vested dividend units.
[3] Calculated as:
- LTIP retention units - the number of unvested units multiplied by the MMI share price at the reporting date.
- LTIP performance units - the number of unvested units multiplied by the latest probability of future vesting at the reporting date, multiplied by the share price at the reporting date.
- OPP performance units - the number of unvested units multiplied by the latest probability of future vesting at the reporting date, multiplied by the share price at the reporting date.

[4] The grants of retention awards on 25 September 2014, 2015 and 2016 represent deferred bonus units in terms of the STI policy.
[5] The sign-on awards of LTIP performance units totalled R27.5m for the CEO and R6m for the deputy CEO.

Minimum shareholding requirement measurement

The following table reflects the current shareholding by executive directors in MMI shares, relative to the minimum shareholding requirement (MSR):

Value of shares as at 30 June 2018 (R'000)	Minimum shareholding requirement	Current qualifying shareholding	Date by which the minimum shareholding requirement must be met
Hillie Meyer	N/A[1]	6 000	N/A[1]
Jeanette Cilliers (Marais)	4 100	3 340	1 March 2023
Risto Ketola	3 875	-	1 July 2022

[1] In terms of the group policy on minimum shareholding, executives are required to accumulate the MSR within a 5-year period of joining the executive committee. Due to the fact that Hillie Meyer's contract period ends on 31 October 2021, the MSR does not apply to him.

Non-executive directors' fees

Non-executive directors are paid an all-inclusive retainer, which is benchmarked annually by participation in various market surveys. The non-executive directors' fees are not linked to the performance of the company in any way. Non-executive directors do not participate in any of the group long-term incentive schemes.

The table below reflects the fees paid to non-executive directors during the year.

	Months of service		Fees		Ad hoc fees		**Total fees**	
			R'000		R'000		**R'000**	
	Jun-18	**Jun-17**	**Jun-18**	**Jun-17**	**Jun-18**	**Jun-17**	**Jun-18**	**Jun-17**
Ben van der Ross[1]	5	12	630	1 535	-	72	630	1 607
Fatima Daniels (Jakoet)	12	12	968	968	-	36	968	1 004
Frans Truter	12	12	2 154	2 062	-	18	2 154	2 080
Jabu Moleketi	12	12	786	893	-	-	786	893
JJ Njeke	12	12	1 982	1 809	-	54	1 982	1 863
Johan Burger[2]	-	5	-	593	-	-	-	593
Johan van Reenen	12	12	980	980	-	18	980	998
Khehla Shubane	12	12	786	786	-	-	786	786
Louis von Zeuner	12	12	2 152	1 914	-	68	2 152	1 982
Niel Krige	12	12	690	626	-	-	690	626
Syd Muller	12	12	1 697	1 351	45	72	1 742	1 423
Vuyisa Nkonyeni	12	12	658	658	-	-	658	658
Peter Cooper	12	12	1 077	973	-	36	1 077	1 009
Voyt Krzychylkiewicz[3]	3	12	-	-			-	-
Stephen Jurisich	12	9	1 523	1 064	-	36	1 523	1 100
			16 083	**16 212**	**45**	**410**	**16 128**	**16 622**

[1] *Retired November 2017*
[2] *Resigned November 2016*
[3] *Resigned October 2017*

Voting statement (Non-binding advisory vote on the implementation report)

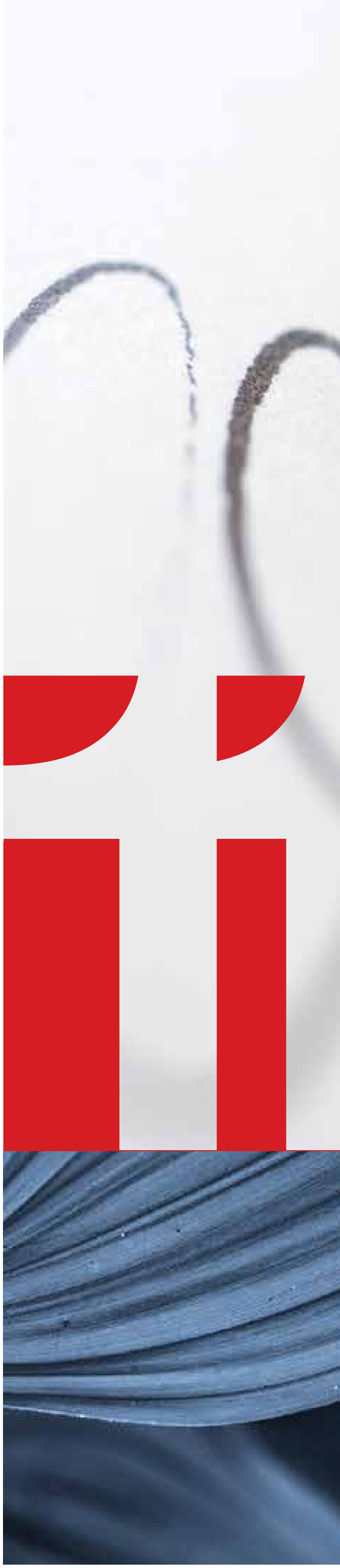
This report is subject to an advisory vote by shareholders at the 26 November 2018 AGM.

Shareholders are requested to cast an advisory vote on the remuneration implementation report as contained in this section of the report. The company will engage with dissenting shareholders should the vote against the implementation report exceed 25%.

Approval of remuneration report by the Board of Directors.

This remuneration report was approved by the Board of Directors of MMI Holdings on 4 September 2018.

Financial statements



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Contents

Group annual financial statements 30 June 2018

MMI Holdings Ltd

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

Directors’ responsibility and approval

Responsibility for financial statements

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

To enable the directors to meet these responsibilities:

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

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

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

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The independent auditor’s report is presented on page 122.

Approval of annual financial statements

The annual financial statements, presented on pages 142 to 343, were approved by the board of directors on 4 September 2018 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 4 September 2018

Hillie Meyer
Group chief executive officer
Centurion, 4 September 2018

Certificate by the group company secretary

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2018 the companies have lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.

Maliga Chetty
Group company secretary
Centurion, 4 September 2018

Independent auditor's report

To the shareholders of MMI Holdings Ltd

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of MMI Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

MMI Holdings Limited's consolidated and separate financial statements set out on pages 148 to 338 comprise:

- the consolidated statement of financial position as at 30 June 2018 and the separate statement of financial position as at 30 June 2018;
- the consolidated income statement for the year then ended and the separate income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended and the separate statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended and the separate statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended and the separate statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the MMI Holdings Integrated Report 2018, 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 consolidated and separate financial statements* section of our report.

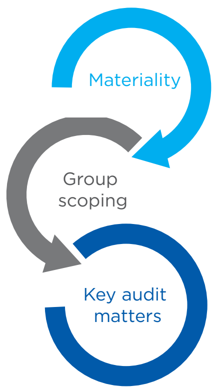
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall group materiality

- R262 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope

- The Group audit included full scope audits on significant financial components. These components were scoped in, as they are financially significant to the individual financial statement line items of the consolidated financial statements. Majority of these components are located in Johannesburg, the two other significant locations are Cape Town and Namibia, which we visited in the current year for group reporting purposes.

Key audit matters

- Valuation of insurance contract liabilities

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

Materiality

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

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

Overall group materiality	R262 million
How we determined it	5% of adjusted consolidated profit before tax
Rationale for the materiality benchmark applied	We chose an adjusted consolidated profit before tax benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which users most commonly measure the performance of the Group and other companies in this industry. The consolidated profit before tax was adjusted for once off items, which include impairment of intangible assets,loss on sale of subsidiary, BEE cost and actuarial basis changes as set out in Note 1. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

The group is structured along the following five segmental reporting views, Momentum Retail, Metropolitan Retail, Corporate and Public Sector, International and Shareholder Capital, operating across 3 different geographical locations – Africa, Europe and Asia. The group financial statements are a consolidation of various business units. We grouped the business units into the following 3 categories:

- a significant financial component, for which a full scope audit is performed. MMI Group Limited is a wholly owned subsidiary of MMI Holdings Limited, audited by PwC and this subsidiary contributes significantly to the total group profit before tax; or
- a component of which an identified financial statement line item or items were significant, for which an audit was performed for those items; or
- components that are financially inconsequential, individually and in aggregate, for which an analytical review was performed.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other networks operating under our instruction. Where 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 Group financial statements as a whole.

Independent auditor's report continued

To the shareholders of MMI Holdings Ltd

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matter that relates to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities (Refer to notes 8.1 and 10) 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 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. In valuing of these insurance contract liabilities, management took into account key economic and non-economic assumptions. Economic assumptions include available market information as at year-end which amongst others, include: • discount rates; • investment returns; and • inflation rates 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: • mortality; • morbidity; and • lapses.	We made use of our actuarial and data experts to test the output from management's actuarial valuation process which considers the following: • data inputs; • assumptions applied; and • results of the analysis of surplus (AOS) and liability build up. **The following audit procedures were performed in order to test the above:** • Understanding the Group's actuarial control environment and governance such as the functioning of the Group Actuarial Committee. *Data inputs* • Tested the completeness and accuracy of data used by management in the valuations which included: – inspecting the movement reconciliations for key data fields; and – reconciling the policyholder data used in the valuation to the data on the administration systems. We found no material exceptions. *Assumptions applied* • 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. • 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. The liability was found to be sufficient for future expected renewal expenses. This was assessed by comparing the expenses included in the 30 June 2018 valuation to the approved 2019 budgeted renewal expenses. We found management's allocation and split between initial and renewal expenses to be reasonable.

Key audit matter *continued*	How our audit addressed the key audit matter *continued*
A refinement of the assumptions used in the policyholder liabilities valuation was performed during the year with a particular focus on the future expected renewal expense assumption. This resulted in an increase in the liabilities on 30 June 2018. 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 valuation of policyholder liabilities.	*Analysis of surplus and liability build up* • 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 *MMI Holdings Integrated Report 2018*, which includes the Directors' Report, the Report of the Audit Committee and the Certificate by the Group Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

Independent auditor's report continued

To the shareholders of MMI Holdings Ltd

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of MMI Holdings Limited for 39 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor

Johannesburg
4 September 2018

Review report on group embedded value

Of MMI Holdings Ltd and its Subsidiaries to the directors of MMI Holdings Ltd

Introduction

We have reviewed the group embedded value report of MMI Holdings Limited and its subsidiaries for the year ended 30 June 2018, as set out on pages 127 to 141 (the "Report"). The Report is prepared for the purpose of the embedded value of the group for the year ended 30 June 2018. The directors of MMI Holdings Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out on page 127 to the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out on page 127 to the Report.

Basis of accounting and restriction on use

Without modifying our conclusion, we draw attention to page 127 to the Report, which describes the basis of accounting. The Report is prepared to for the purposes of setting out embedded value of the group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of MMI Holdings Limited and should not be used by any other parties. We agree to the publication of our report in the MMI Holdings Integrated Report 2018 for the year ended 30 June 2018 provided it is clearly understood by the recipients of the MMI Holdings Integrated Report that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered auditor
Sunninghill, 4 September 2018

Report on group embedded value

At 30 June 2018

The report on group embedded value sets out the diluted embedded value (EV), taking into account all shares issued by MMI Holdings Ltd. This report has been prepared in accordance with the EV guidance from the Actuarial Society of South Africa (ASSA) – APN 107.

MMI Group Ltd required capital

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

Other covered business

A multiple of statutory CAR has been used.

Assets backing required capital

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

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

Report on group embedded value continued

At 30 June 2018

Embedded value results	2018 Rm	2017 Rm
Covered business		
Reporting excess – long-term insurance business	16 214	17 161
Reclassification to non-covered business	(2 766)	(2 206)
	13 448	14 955
Disregarded assets[1]	(471)	(504)
Difference between statutory and published valuation methods	(1 574)	(942)
Dilutory effect of subsidiaries[2]	(52)	(53)
Consolidation adjustments[3]	(15)	(21)
Value of MMI Group Ltd preference shares issued	(500)	(500)
Diluted adjusted net worth – covered business	10 836	12 935
Net value of in-force business	21 904	21 130
Diluted embedded value – covered business	32 740	34 065
Non-covered business		
Net assets – non-covered business within life insurance companies	2 766	2 206
Net assets – non-covered business outside life insurance companies	3 430	2 849
Consolidation adjustments and transfers to covered business[3]	(2 306)	(2 415)
Adjustments for dilution[4]	660	720
Diluted adjusted net worth – non-covered business	4 550	3 360
Write-up to directors' value	2 311	5 098
Non-covered business	4 124	5 995
Holding company expenses[5]	(1 232)	(322)
International holding company expenses[5]	(581)	(575)
Diluted embedded value – non-covered business	6 861	8 458
Diluted adjusted net worth	15 386	16 295
Net value of in-force business	21 904	21 130
Write-up to directors' value	2 311	5 098
Diluted embedded value	39 601	42 523
Required capital – covered business (adjusted for qualifying debt)[6]	5 480	6 449
Surplus capital – covered business	5 356	6 486
Diluted embedded value per share (cents)	2 543	2 651
Diluted adjusted net worth per share (cents)	988	1 016
Diluted number of shares in issue (million)[7]	1 557	1 604

1 Disregarded assets include Sage intangible assets of R431 million (2017: R464 million), goodwill and various other items.

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

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

4 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 2): R114 million (2017: R106 million)
- Treasury shares held on behalf of contract holders: R292 million (2017: R353 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R254 million (2017: R261 million)

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

6 The required capital for covered business amounts to R9 854 million (2017: R10 051 million) and is adjusted for qualifying debt of R4 374 million (2017: R3 602 million).

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

Embedded value detail	Adjusted net worth (ANW) Rm	Net value of in-force (VIF) Rm	2018 Rm	2017 Rm
Covered business				
Momentum Retail	3 977	11 553	15 530	15 716
Metropolitan Retail	2 152	4 023	6 175	6 007
Momentum Corporate	2 524	4 250	6 774	6 409
International	1 755	2 078	3 833	3 913
Shareholder Capital	428	–	428	2 020
Total covered business	10 836	21 904	32 740	34 065

	Adjusted net worth (ANW) Rm	Write-up to directors' value Rm	2018 Rm	2017 Rm
Non-covered business				
Momentum Retail	1 285	(322)	963	2 107
Investment and savings	686	162	848	1 402
Health	(30)	439	409	379
Short-term insurance	629	(159)	470	514
Client engagement	–	(764)	(764)	(188)
Metropolitan Retail	–	–	–	(78)
Client engagement	–	–	–	(78)
Momentum Corporate	1 690	3 716	5 406	5 747
Investment and savings	405	797	1 202	1 370
Health	171	1 016	1 187	1 515
Short-term insurance	1 137	1 903	3 040	2 853
Client engagement	–	–	–	9
Other	(23)	–	(23)	–
International	601	149	750	60
Investment and savings[1]	345	431	776	712
Life insurance	358	(77)	281	279
Health	488	339	827	800
Short-term insurance	60	37	97	139
Client engagement	–	–	–	(92)
Other (shared services)[2]	(650)	(581)	(1 231)	(1 778)
Shareholder Capital	974	(1 232)	(258)	622
Short-term insurance	–	–	–	101
Client engagement	388	–	388	368
Other (head office expenses)[2]	586	(1 232)	(646)	153
Total non-covered business	4 550	2 311	6 861	8 458
Total embedded value	15 386	24 215	39 601	42 523
Diluted net asset value – non-covered business	(4 550)			
Adjustments to covered business – net asset value	5 378			
Reporting excess – long-term insurance business	16 214			

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

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

Report on group embedded value continued

At 30 June 2018

Analysis of net value of in-force business	2018 Rm	2017 Rm
Momentum Retail	**11 553**	11 379
Gross value of in-force business	**13 037**	12 865
Less: cost of required capital	**(1 484)**	(1 486)
Metropolitan Retail	**4 023**	3 758
Gross value of in-force business	**4 659**	4 396
Less: cost of required capital	**(636)**	(638)
Momentum Corporate	**4 250**	3 846
Gross value of in-force business	**5 183**	4 743
Less: cost of required capital	**(933)**	(897)
International	**2 078**	2 147
Gross value of in-force business	**2 366**	2 403
Less: cost of required capital	**(288)**	(256)
Net value of in-force business	**21 904**	21 130

Directors' value per valuation method	Covered methodology Rm (2018)	Appraisal value Rm (2018)	2018 Rm	Covered methodology Rm (2017)	Appraisal value Rm (2017)	2017 Rm
Non-covered business						
Momentum Retail	**444**	**519**	**963**	955	1 152	2 107
Investment and savings	**444**	**404**	**848**	576	826	1 402
Health	**–**	**409**	**409**	379	–	379
Short-term insurance	**–**	**470**	**470**	–	514	514
Client engagement	**–**	**(764)**	**(764)**	–	(188)	(188)
Metropolitan Retail	**–**	**–**	**–**	–	(78)	(78)
Client engagement	**–**	**–**	**–**	–	(78)	(78)
Momentum Corporate	**3 040**	**2 366**	**5 406**	4 388	1 359	5 747
Investment and savings	**–**	**1 202**	**1 202**	–	1 370	1 370
Health	**–**	**1 187**	**1 187**	1 535	(20)	1 515
Short-term insurance	**3 040**	**–**	**3 040**	2 853	–	2 853
Client engagement	**–**	**–**	**–**	–	9	9
Other	**–**	**(23)**	**(23)**	–	–	–
International	**1 064**	**(314)**	**750**	1 143	(1 083)	60
Investment and savings	**393**	**383**	**776**	458	254	712
Life insurance	**204**	**77**	**281**	242	37	279
Health	**438**	**389**	**827**	417	383	800
Short-term insurance	**29**	**68**	**97**	26	113	139
Client engagement	**–**	**–**	**–**	–	(92)	(92)
Other (shared services)	**–**	**(1 231)**	**(1 231)**	–	(1 778)	(1 778)
Shareholder Capital	**–**	**(258)**	**(258)**	–	622	622
Short-term insurance	**–**	**–**	**–**	–	101	101
Client engagement	**–**	**388**	**388**	–	368	368
Other (head office expenses)	**–**	**(646)**	**(646)**	–	153	153
Total non-covered business	**4 548**	**2 313**	**6 861**	6 486	1 972	8 458

- Covered methodology refers to APN107 (embedded value methodology) and the risk discount rate of covered business. Momentum Wealth, Guardrisk and selected International entities are valued using embedded value methodology.
- The International shared services impact reflects the allowance for support services to the international life and health businesses. The Shareholder head office expenses impact reflects the present value of projected recurring head office expenses.
- Appraisal value approach is followed for all remaining businesses. The key assumption used in the model is the distributable cash flow. Other assumptions include the risk discount rate (based on the risk free rate plus an assumed equity risk premium) and a calculated perpetuity factor.

Analysis of changes in group embedded value	Notes	Covered business ANW Rm	Gross VIF Rm	Cost of CAR Rm	12 mths to 30.06.2018 Total EV Rm	12 mths to 30.06.2017 Total EV Rm
Profit from new business		(1 658)	2 233	(189)	386	643
Embedded value from new business	A	(1 658)	2 148	(189)	301	547
Expected return to end of period	B	–	85	–	85	96
Profit from existing business		2 778	(1 471)	147	1 454	3 123
Expected return – unwinding of RDR	B	–	2 503	(343)	2 160	2 327
Release from the cost of required capital	C	–	–	446	446	442
Expected (or actual) net of tax profit transfer to net worth	D	3 766	(3 766)	–	–	–
Operating experience variances	E	29	(173)	18	(126)	18
Development expenses	F	(51)	–	–	(51)	(67)
Operating assumption changes	G	(966)	(35)	26	(975)	403
Embedded value profit from operations		1 120	762	(42)	1 840	3 766
Investment return on adjusted net worth	H	636	–	–	636	652
Investment variances	I	(81)	75	(40)	(46)	(1 354)
Economic assumption changes	J	18	(9)	20	29	(164)
Exchange rate movements	K	13	10	(2)	21	(36)
Embedded value profit – covered business		1 706	838	(64)	2 480	2 864
Transfer of business to non-covered business	L	(59)	–	–	(59)	–
Other capital transfers	M	(552)	–	–	(552)	(700)
Dividend paid		(3 194)	–	–	(3 194)	(3 066)
Change in embedded value – covered business		(2 099)	838	(64)	(1 325)	(902)
Non-covered business						
Change in directors' valuation and other items					(2 033)	(749)
Change in holding company expenses					(916)	(86)
Embedded value loss – non-covered business					(2 949)	(835)
Transfer of business from covered business	L				59	–
Other capital transfers	M				552	700
Dividend paid					1 752	610
Shares repurchased					(974)	–
Finance costs – preference shares					(37)	(39)
Change in embedded value – non-covered business					(1 597)	436
Total change in group embedded value					(2 922)	(466)
Total embedded value (loss)/profit					(469)	2 029
Return on embedded value (%) – internal rate of return					(1.1)	4.7

Report on group embedded value continued

At 30 June 2018

Analysis of changes in adjusted net worth 12 mths to 30.06.2018	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Embedded value from new business	(941)	(294)	(182)	(241)	–	(1 658)
Expected (or actual) net of tax profit transfer to net worth	1 987	822	493	464	–	3 766
Operating experience variances	(37)	(20)	105	14	(33)	29
Development expenses	(20)	(24)	(7)	–	–	(51)
Operating assumption changes	(823)	(356)	335	(122)	–	(966)
Embedded value profit/(loss) from operations	166	128	744	115	(33)	1 120
Investment return on adjusted net worth	226	115	129	112	54	636
Investment variances	(103)	21	19	(18)	–	(81)
Economic assumption changes	(3)	25	–	(4)	–	18
Exchange rate movements	–	–	–	13	–	13
Embedded value profit – covered business	286	289	892	218	21	1 706

Analysis of changes in gross value of in-force 12 mths to 30.06.2018	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Embedded value from new business	1 122	428	342	256	2 148
Expected return – unwinding of RDR	1 269	434	580	305	2 588
Expected (or actual) net of tax profit transfer to net worth	(1 987)	(822)	(493)	(464)	(3 766)
Operating experience variances	(19)	(13)	(137)	(4)	(173)
Operating assumption changes	(277)	83	289	(130)	(35)
Embedded value profit/(loss) from operations	108	110	581	(37)	762
Investment variances	28	102	(38)	(17)	75
Economic assumption changes	36	51	(103)	7	(9)
Exchange rate movements	–	–	–	10	10
Embedded value profit/(loss) – covered business	172	263	440	(37)	838

Analysis of changes in cost of CAR 12 mths to 30.06.2018	Covered business				
	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Embedded value from new business	(83)	(50)	(36)	(20)	(189)
Expected return – unwinding of RDR	(143)	(62)	(106)	(32)	(343)
Release from the cost of required capital	218	102	126	–	446
Operating experience variances	–	–	18	–	18
Operating assumption changes	24	–	–	2	26
Embedded value profit/(loss) from operations	**16**	**(10)**	**2**	**(50)**	**(42)**
Investment variances	(14)	12	(38)	–	(40)
Economic assumption changes	–	–	–	20	20
Exchange rate movements	–	–	–	(2)	(2)
Embedded value profit/(loss) – covered business	**2**	**2**	**(36)**	**(32)**	**(64)**

Analysis of changes in group embedded value 12 mths to 30.06.2018	Covered business					
	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Embedded value from new business	98	84	124	(5)	–	301
Expected return – unwinding of RDR	1 126	372	474	273	–	2 245
Release from the cost of required capital	218	102	126	–	–	446
Expected (or actual) net of tax profit transfer to net worth	–	–	–	–	–	–
Operating experience variances	(56)	(33)	(14)	10	(33)	(126)
Development expenses	(20)	(24)	(7)	–	–	(51)
Operating assumption changes	(1 076)	(273)	624	(250)	–	(975)
Embedded value profit/(loss) from operations	**290**	**228**	**1 327**	**28**	**(33)**	**1 840**
Investment return on adjusted net worth	226	115	129	112	54	636
Investment variances	(89)	135	(57)	(35)	–	(46)
Economic assumption changes	33	76	(103)	23	–	29
Exchange rate movements	–	–	–	21	–	21
Embedded value profit – covered business	**460**	**554**	**1 296**	**149**	**21**	**2 480**

Report on group embedded value continued

At 30 June 2018

Analysis of changes in group embedded value 12 mths to 30.06.2017	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Embedded value from new business	228	178	68	73	–	547
Expected return – unwinding of RDR	1 255	451	490	227	–	2 423
Release from the cost of required capital	210	127	105	–	–	442
Operating experience variances	36	20	(147)	65	44	18
Development expenses	(36)	–	(31)	–	–	(67)
Operating assumption changes	537	184	(295)	(23)	–	403
Embedded value profit from operations	2 230	960	190	342	44	3 766
Investment return on adjusted net worth	269	157	145	63	18	652
Investment variances	(932)	(193)	(203)	(21)	(5)	(1 354)
Economic assumption changes	(54)	(14)	(103)	7	–	(164)
Exchange rate movements	–	–	–	(36)	–	(36)
Embedded value profit – covered business	1 513	910	29	355	57	2 864

A. Value of new business (VNB)

In determining the VNB for retail and traditional corporate business:

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

A. Value of new business (VNB) *continued*

Reconciliation of lump sum inflows	12 mths to 30.06.2018 Rm	12 mths to 30.06.2017 Rm
Total lump sum inflows	**26 910**	26 968
Inflows not included in value of new business	**(6 603)**	(6 518)
Term extensions on maturing policies	**438**	345
Automatically Continued Policies	**1 318**	1 107
Non-controlling interests and other adjustments	**(12)**	(37)
Single premiums included in value of new business	**22 051**	21 865

Value of new business[1,2] 12 mths to 30.06.2018	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Value of new business	**98**	**84**	**124**	**(5)**	**301**
Gross	**181**	**134**	**160**	**15**	**490**
Less: cost of required capital	**(83)**	**(50)**	**(36)**	**(20)**	**(189)**
New business premiums	**17 890**	**2 616**	**4 319**	**861**	**25 686**
Recurring premiums	**1 152**	**1 248**	**806**	**429**	**3 635**
Single premiums	**16 738**	**1 368**	**3 513**	**432**	**22 051**
New business premiums (APE)	**2 826**	**1 385**	**1 157**	**472**	**5 840**
New business premiums (PVP)	**23 531**	**5 091**	**11 218**	**2 337**	**42 177**
Profitability of new business as a percentage of APE	**3.5**	**6.1**	**10.7**	**(1.1)**	**5.2**
Profitability of new business as a percentage of PVP	**0.4**	**1.6**	**1.1**	**(0.2)**	**0.7**
12 mths to 30.06.2017					
Value of new business	228	178	68	73	547
Gross	314	230	113	95	752
Less: cost of required capital	(86)	(52)	(45)	(22)	(205)
New business premiums	17 624	2 325	4 637	824	25 410
Recurring premiums	1 135	1 220	751	439	3 545
Single premiums	16 489	1 105	3 886	385	21 865
New business premiums (APE)	2 784	1 331	1 140	478	5 733
New business premiums (PVP)	22 774	5 164	11 121	2 536	41 595
Profitability of new business as a percentage of APE	8.2	13.4	6.0	15.3	9.5
Profitability of new business as a percentage of PVP	1.0	3.4	0.6	2.9	1.3

[1] Value of new business and new business premiums are net of non-controlling interests.
[2] The value of new business has been calculated on closing assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business; for other business the investment yields at the reporting date have been used.

Report on group embedded value continued

At 30 June 2018

A. Value of new business (VNB) *continued*

Analysis of new business premiums 12 mths to 30.06.2018	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Total
New business premiums	**17 890**	**2 616**	**4 319**	**861**	**25 686**
Recurring premiums	**1 152**	**1 248**	**806**	**429**	**3 635**
Risk	**517**	**822**	**271**	**–**	**1 610**
Savings/investments	**635**	**426**	**533**	**–**	**1 594**
Annuities	**–**	**–**	**2**	**–**	**2**
International	**–**	**–**	**–**	**429**	**429**
Single premiums	**16 738**	**1 368**	**3 513**	**432**	**22 051**
Risk	**–**	**–**	**10**	**–**	**10**
Savings/investments	**15 841**	**631**	**2 700**	**–**	**19 172**
Annuities	**897**	**737**	**803**	**–**	**2 437**
International	**–**	**–**	**–**	**432**	**432**
New business premiums (APE)	**2 826**	**1 385**	**1 157**	**472**	**5 840**
Risk	**517**	**822**	**272**	**–**	**1 611**
Savings/investments	**2 219**	**489**	**803**	**–**	**3 511**
Annuities	**90**	**74**	**82**	**–**	**246**
International	**–**	**–**	**–**	**472**	**472**
12 mths to 30.06.2017					
New business premiums	17 624	2 325	4 637	824	25 410
Recurring premiums	1 135	1 220	751	439	3 545
Risk	532	811	306	–	1 649
Savings/investments	603	409	442	–	1 454
Annuities	–	–	3	–	3
International	–	–	–	439	439
Single premiums	16 489	1 105	3 886	385	21 865
Savings/investments	15 455	439	2 917	–	18 811
Annuities	1 034	666	969	–	2 669
International	–	–	–	385	385
New business premiums (APE)	2 784	1 331	1 140	478	5 733
Risk	532	811	306	–	1 649
Savings/investments	2 149	453	734	–	3 336
Annuities	103	67	100	–	270
International	–	–	–	478	478

A. **Value of new business (VNB)** *continued*

Changes in bases and assumptions

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

Assumptions

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

Principal assumptions (South Africa)[1,4]	2018 %	2017 %
Pre-tax investment return		
Equities	**13.0**	12.9
Properties	**10.5**	10.4
Government stock	**9.5**	9.4
Other fixed-interest stocks	**10.0**	9.9
Cash	**8.5**	8.4
Risk-free return	**9.5**	9.4
Risk discount rate (RDR)	**11.8**	11.7
Investment return (before tax) – balanced portfolio[2]	**11.7**	11.6
Renewal expense inflation base rate[3]	**6.5**	6.8

1 The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.
2 Risk-free returns are taken from an appropriate market-related, risk-free yield curve as at the valuation date. Appropriate risk premia are added to the risk-free yields in order to derive yields on other asset classes. Expected cash flows at each duration are discounted using yields appropriate to that duration. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.
3 An inflation rate of 6.0% p.a. is used over the planning horizon (three years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.
4 The assumptions quoted in the table are representative rates derived at the 10-year point of the yield curves.

Non-economic

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

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

B. Expected return

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

C. Release from the cost of required capital

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

D. Expected (or actual) net of tax profit transfer to net worth

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

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E. Operating experience variances

	12 mths to 30.06.2018 ANW Rm	Net VIF Rm	EV Rm	12 mths to 30.06.2017 EV Rm
Momentum Retail	(37)	(19)	(56)	36
Mortality and morbidity[1]	161	20	181	165
Terminations, premium cessations and policy alterations[2]	(18)	(44)	(62)	58
Expense variance[3]	(115)	–	(115)	40
Credit risk variance	31	–	31	39
Other[4]	(96)	5	(91)	(266)
Metropolitan Retail	(20)	(13)	(33)	20
Mortality and morbidity[1]	85	13	98	83
Terminations, premium cessations and policy alterations[5]	(105)	(36)	(141)	(69)
Expense variance	(18)	–	(18)	(23)
Credit risk variance	17	–	17	21
Other	1	10	11	8
Momentum Corporate	105	(137)	(32)	(135)
Mortality and morbidity[1]	28	–	28	(152)
Terminations[6]	(2)	(57)	(59)	(191)
Expense variance[7]	51	–	51	36
Credit risk variance	48	–	48	57
Other[8]	(20)	(80)	(100)	115
International	14	(4)	10	65
Mortality and morbidity[1]	44	8	52	44
Terminations, premium cessations and policy alterations[9]	(18)	(21)	(39)	4
Expense variance	(4)	–	(4)	(3)
Other	(8)	9	1	20
Shareholder Capital	(33)	–	(33)	44
Opportunity cost of required capital	–	18	18	(12)
Total operating experience variances	29	(155)	(126)	18

1 Overall, mortality and morbidity experience for the 12 months was better compared to what was allowed for in the valuation basis.
2 Mainly due to a change in the classification of business as alterations versus new business.
3 Due to additional investment in order to improve Momentum Retail's capabilities available to clients and intermediaries.
4 Includes one-off impact arising from reinsurance premium as well as larger than expected premium discounts.
5 Higher than expected terminations at early durations.
6 Terminations in respect of group risk business.
7 The impact of efficiencies achieved in the segment.
8 Mainly due to a reduction in the investment fees of Smooth Bonus business.
9 A bulk lapse was done in Namibia due to correction of a system error.

F. Development expenses

Business development expenses within segments.

G. Operating assumption changes

	12 mths to 30.06.2018 ANW Rm	Net VIF Rm	EV Rm	12 mths to 30.06.2017 EV Rm
Momentum Retail	(823)	(277)	(1 100)	587
Mortality and morbidity assumptions	(98)	92	(6)	410
Termination assumptions[1]	(369)	102	(267)	(60)
Renewal expense assumptions[2]	(388)	(370)	(758)	(56)
Modelling, methodology and other changes[3]	32	(101)	(69)	293
Metropolitan Retail	(356)	83	(273)	184
Mortality and morbidity assumptions	(7)	10	3	(15)
Termination assumptions[4]	(39)	(16)	(55)	(15)
Renewal expense assumptions[2]	(224)	8	(216)	(55)
Modelling, methodology and other changes	(86)	81	(5)	269
Momentum Corporate	335	289	624	(295)
Mortality and morbidity assumptions[5]	42	(185)	(143)	(358)
Termination assumptions	(6)	15	9	105
Renewal expense assumptions[2]	86	440	526	(46)
Modelling, methodology and other changes[6]	213	19	232	4
International	(122)	(130)	(252)	3
Mortality and morbidity assumptions[7]	35	14	49	102
Termination assumptions	(5)	3	(2)	(56)
Renewal expense assumptions[2]	(86)	(1)	(87)	19
Modelling, methodology and other changes[8]	(66)	(146)	(212)	(62)
Methodology change: cost of required capital	–	26	26	(76)
Total operating assumption changes	(966)	(9)	(975)	403

[1] Strengthening of the basis in line with experience observed in certain product lines.
[2] Expense assumptions have been revised based on management's budgeted expenses for the new financial year.
[3] Various modelling and methodology changes including refinements in the valuation of risk products offset by allowance for expected pricing reviews of Wealth products.
[4] Strengthening of the lapse basis as well as splitting the bases by method of payment for certain funeral products.
[5] Mainly due to lower expected experience profits from group risk business.
[6] Updating of IBNR reserves.
[7] Allowance for better than assumed mortality experience on risk business.
[8] Various modelling and methodology changes made mainly in Namibia.

Report on group embedded value continued

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H. Investment return on adjusted net worth

	12 mths to 30.06.2018 Rm	12 mths to 30.06.2017 Rm
Investment income	**557**	620
Capital appreciation and other	**114**	68
Preference share dividends paid and change in fair value of preference shares	**(35)**	(36)
Investment return on adjusted net worth	**636**	652

I. Investment variances

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

J. Economic assumption changes

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

K. Exchange rate movements

The impact of foreign currency movements on International covered businesses.

L. Transfer of business to non-covered business

Transfer of business between covered and non-covered business.

M. Other capital transfers

Capital transfers include the alignment of the net asset value of subsidiaries between covered and non-covered business and the recapitalisation of some International subsidiaries.

Sensitivity of the in-force value and the VNB

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

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

Covered business: sensitivities – 30.06.2018	In-force business				New business written		
	ANW Rm	Net VIF Rm	Gross VIF Rm	Cost of required capital[3] Rm	Net VNB Rm	Gross VNB Rm	Cost of required capital[3] Rm
Base value	10 836	21 904	25 245	(3 341)	301	490	(189)
1% increase in RDR		20 080	23 724	(3 644)	159	361	(202)
% change		(8)	(6)	9	(47)	(26)	7
1% reduction in RDR		23 986	26 977	(2 991)	467	634	(167)
% change		10	7	(10)	55	29	(12)
10% decrease in future expenses		23 292	26 633	(3 341)	431	620	(189)
% change[1]		6	5	–	43	27	–
10% decrease in lapse, paid-up and surrender rates		22 529	25 870	(3 341)	438	635	(197)
% change		3	2	–	46	30	4
5% decrease in mortality and morbidity for assurance business		24 025	27 397	(3 372)	450	639	(189)
% change		10	9	1	50	30	–
5% decrease in mortality for annuity business		21 570	24 883	(3 313)	292	481	(189)
% change		(2)	(1)	(1)	(3)	(2)	–
1% reduction in gross investment return, inflation rate and RDR	10 836	22 532	25 794	(3 262)	370	556	(186)
% change[2]	–	3	2	(2)	23	13	(2)
1% reduction in inflation rate		22 713	26 029	(3 316)	376	564	(188)
% change		4	3	(1)	25	15	(1)
10% fall in market value of equities and properties	10 523	21 159	24 442	(3 283)			
% change	(3)	(3)	(3)	(2)			
10% reduction in premium indexation take-up rate		21 410	24 751	(3 341)	261	450	(189)
% change		(2)	(2)	–	(13)	(8)	–
10% decrease in non-commission-related acquisition expenses					427	616	(189)
% change					42	26	–
1% increase in equity/property risk premium		22 617	25 958	(3 341)	343	532	(189)
% change		3	3	–	14	9	–

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

Directors' report

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of MMI Holdings Ltd (the company) and its subsidiaries (collectively MMI or the group) for the year ended 30 June 2018.

Nature of activities

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

Corporate events

BEE transactions

In March, Metropolitan Health Holdings Ltd entered into a transaction with Workerslife SPV and Thebe SPV whereby they purchased 30% and 19% "A" ordinary shares in Metropolitan Health Corporate (Pty) Ltd (MHC) respectively. The "A" ordinary shares will automatically convert into ordinary shares after six months.

Providence Risk Managers (Pty) Ltd entered into a transaction with Thebe Ya Bophelo Administrators (Pty) Ltd whereby they purchased 48% ordinary shares in Providence Healthcare Risk Managers (Pty) Ltd. Refer to note 16.7 for more details.

Listed debt

MMI Group Ltd listed new instruments to the total value of R750 million on the JSE on 4 December 2017. The instruments are unsecured subordinated callable notes.

Presentation of financial statements

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

Corporate governance

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

Contingent liabilities and capital commitments

The group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The group had no material capital commitments at 30 June 2018 that were not in the ordinary course of business other than what is disclosed in note 31.

Results of operations

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

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R1 369 million (2017: R1 536 million) and R1 468 million (2017: R1 872 million) respectively. Group diluted core headline earnings were R2 809 million (2017: R3 208 million) and diluted core headline earnings per share 176 cents (2017: 200 cents). Refer to note 1 for a reconciliation of earnings to core headline earnings.

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

	2018		2017	
Analysis of diluted core headline earnings	**Rm**	**% of total**	**Rm**	**% of total**
Momentum Retail	**920**	**33**	1 271	39
Metropolitan Retail	**570**	**20**	660	21
Momentum Corporate	**903**	**32**	835	26
International	**(48)**	**(2)**	(166)	(5)
Shareholder Capital	**464**	**17**	608	19
Total	**2 809**	**100**	3 208	100

Subsidiaries, associates and joint ventures

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

Share capital

Share issue and repurchase

During the current year, 752 720 (2017: 1 537 031) A3 preference shares were converted into ordinary shares. As part of its share buy-back programme, the group has started buying back shares in the current year. Refer to note 15 for more details.

Share options

The group has not issued any options on MMI Holdings Ltd shares. The group awards units to employees as part of cash-settled share-based schemes – refer to note 14.1.2 for more details.

MMIGL preference shares

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

Shareholder dividend

MMI Holdings Ltd – ordinary share dividend

During the current year there were no dividends declared. In the prior year, interim dividends of 65 cents per share were declared in March 2017 and a final dividend of 92 cents per share was declared in September 2017.

Preference share dividends

Dividends of R18.5 million (2017: R19.0 million) (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares as determined by the company's Memorandum of Incorporation.

Share buy-back programme

The group will continue to distribute capital to shareholders by means of repurchasing shares, in lieu of paying a dividend. Up to R2 billion will be used to buy back shares. At 30 June 2018, 47 million shares (R971 million excluding transaction costs) have been bought back at an average price of R20.66. The shares were cancelled and reverted back to authorised but unissued status. Refer to note 15 for more details.

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

The A3 MMI Holdings Ltd preference shares are redeemable on 29 June 2019 (after extending it under the same terms by 18 months in the current year) at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Refer to note 11.2.1 for more details.

Directors’ report continued

Shareholders

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

Directorate, secretary and auditor

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

	Appointments	Resignations
Mr W Krzychylkiewicz (*alternate to Mr P Cooper*)		9 October 2017
Mr BJ van der Ross (*retired*)		24 November 2017
Mr RS Ketola	16 January 2018	
Mr NAS Kruger		15 February 2018
Mr HP Meyer	15 February 2018	
Ms JC Cilliers (Marais)	1 March 2018	
Ms M Vilakazi		31 March 2018
Ms M Chetty (group company secretary)		30 September 2018

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 78 and 79 in the integrated report.

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

Directors’ interest

Rand Merchant Insurance Holdings Ltd (RMI), of which Mr P Cooper is a non-executive director, has a direct holding of 25.8% in the group.

KTH, of which Mr V Nkonyeni is an executive director, has a 7.3% interest in MMI Holdings Ltd (28 million MMI Holdings Ltd preference shares and 86 million listed MMI Holdings Ltd ordinary shares).

Directors’ shareholding

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2018 are set out below:

	Direct Beneficial ’000	Indirect Beneficial ’000	Total 2018 ’000	Total 2017[1] ’000
Listed				
Executive directors	379	150	529	6 340
Non-executive directors	464	1 254	1 718	1 614
	843	1 404	2 247	7 954

[1] The prior year has been updated to remove directors who had resigned during the prior year.

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

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

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

The aggregate direct and indirect holdings of the directors in RMI shares at 30 June 2018 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2018 '000	Total 2017[1] '000
Listed				
Executive directors	26	18	44	–
Non-executive directors	830	3 249	4 079	4 079

[1] The prior year has been updated to remove directors who had resigned during the prior year.

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.07% (2017: 0.09%).

Directors' emoluments

The executive directors have standard employment contracts with the company or its subsidiaries with a minimum of a one month notice period. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2018 is set out below. The detail in terms of the Listings Requirements of the JSE is set out in the remuneration report.

	Fees R'000	Annual package R'000	Bonus[1] R'000	Long-term incentive payments R'000	Pension fund contributions R'000	Ad hoc fees R'000	Contractual payments R'000	Total 2018 R'000	Total 2017 R'000
Executive	–	16 652	7 500	15 007	1 211	–	14 500	54 870	42 769
Non-executive	16 083	–	–	–	–	45	–	16 128	16 622
Total	16 083	16 652	7 500	15 007	1 211	45	14 500	70 998	59 391

[1] Bonus payments relate to the 2017 financial year's bonus.

Special resolutions

MMI Holdings Ltd annual general meeting – 24 November 2017

At the annual general meeting of shareholders of the company held on 24 November 2017 the following special resolutions were approved.

- The fees for the members of the board of directors and other committee members were approved.
- The board of directors was authorised to provide direct or indirect financial assistance for subscription or purchase of securities in related or inter-related entities as contemplated in section 44 of the Companies Act. This approval is valid for two years from the date of approval of this resolution.
- The board of directors was authorised, by way of a general approval, to authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the board may determine. This approval is valid for two years from the date of approval of this resolution.
- The board of directors was authorised, by way of a general approval, to enable the company to acquire up to a maximum of 15% of its own issued share capital in any one financial year, or if acquired by a subsidiary, up to a maximum of 10% of its holding company's issued share capital. Such authority is to remain valid until the company's next annual general meeting, but not beyond a period of 15 months after the date of approval of this resolution.

Directors' report continued

MMIGL annual general meeting – 24 November 2017

At the annual general meeting of shareholders of the company held on 24 November 2017 the following special resolutions were approved:

- The fees for the members of the board of directors and other committee members 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 Companies Act and conditions as may be imposed by any other relevant authority.
- The board of directors was authorised, by way of a general approval, to authorise the company to provide direct or indirect financial assistance to persons who are related or inter-related to the company as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the board may determine. This approval is valid for two years from the date of approval of this resolution.
- The board of directors was authorised to provide direct or indirect financial assistance for subscription or purchase of securities in related or inter-related entities as contemplated in section 44 of the Companies Act. This approval is valid for two years from the date of approval of this resolution, subject to compliance with the requirements of the Memorandum of Incorporation and the Companies Act, on such terms and conditions and for as much as the board may determine.

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, FSCA (previously FSB) approval is required for any borrowings within a life insurance company in the group.

Events after year-end

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

Statutory excess

At 30 June 2018

	2018 Rm	2017 Rm
Group excess per reporting basis	**22 328**	22 956
Net assets – other businesses	**(3 430)**	(2 849)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(2 684)**	(2 946)
Excess – long-term insurance business, net of non-controlling interests[1]	**16 214**	17 161
Disregarded assets[2]	**(1 111)**	(847)
Difference between statutory and published valuation methods	**(1 574)**	(942)
Write-down of subsidiaries and associates for statutory purposes	**(1 264)**	(1 328)
Unsecured subordinated debt	**4 374**	3 602
Consolidation adjustments	**(32)**	(33)
Statutory excess – long-term insurance business	**16 607**	17 613
CAR[3]	**6 398**	6 577
Ratio of long-term insurance business excess to CAR (times)	**2.6**	2.7
Discretionary margins	**13 025**	12 407

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

2 Disregarded assets are those as defined in the South African Long-term Insurance Act, 52 of 1998, and are only applicable to South African long-term insurance companies. Adjustments are also made for the international insurance companies from reporting excess to statutory excess as required by their regulators. It includes Sage intangible assets of R431 million (2017: R464 million).

3 The CAR is an aggregation of the separate CARs, with no assumption of diversification benefits. MMI elected to adopt the revised actuarial guidance note SAP 104 (version 9) which was published in August 2017 but permitted adoption for reporting dates on or after 30 June 2017.

Statement of financial position

At 30 June 2018

	2018 Rm	2017 Rm	Notes
ASSETS			
Intangible assets	**10 515**	11 260	2
Owner-occupied properties	**3 864**	4 105	3
Property and equipment	**323**	389	
Investment properties	**8 614**	7 340	4
Properties under development	**136**	111	
Investments in associates and joint ventures	**636**	595	5
Employee benefit assets	**436**	410	
Financial assets designated at fair value through income	**395 146**	369 205	6.1
Investments in associates designated at fair value through income	**11 383**	15 039	6.2
Derivative financial assets	**2 910**	2 439	6.3
Available-for-sale financial assets	**–**	18	6
Held-to-maturity financial assets	**437**	397	6
Loans and receivables	**5 629**	7 293	6.4
Reinsurance contract assets	**4 989**	4 495	7
Deferred income tax	**290**	249	13
Insurance and other receivables	**4 962**	4 621	6.5
Current income tax assets	**283**	581	
Cash and cash equivalents	**25 812**	27 353	6.6
Total assets	**476 365**	455 900	
EQUITY			
Equity attributable to owners of the parent	**22 328**	22 956	
Share capital	**13 767**	13 746	15
Other components of equity	**1 767**	1 788	16
Retained earnings	**6 794**	7 422	
Non-controlling interests	**462**	292	
Total equity	**22 790**	23 248	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**109 194**	106 567	8.1
Short-term insurance contracts	**8 728**	7 661	8.2
Capitation contracts	**9**	14	
Investment contracts	**272 411**	257 772	
– with discretionary participation features (DPF)	**24 550**	24 338	9.1
– designated at fair value through income	**247 861**	233 434	9.2
Financial liabilities designated at fair value through income	**38 217**	37 331	11.1
Derivative financial liabilities	**2 255**	1 827	6.3
Financial liabilities at amortised cost	**2 420**	1 229	11.2
Reinsurance contract liabilities	**1 685**	1 368	12
Deferred income tax	**2 874**	3 198	13
Employee benefit obligations	**1 153**	1 334	14.1
Other payables	**14 304**	14 128	11.3
Provisions	**73**	57	
Current income tax liabilities	**252**	166	
Total liabilities	**453 575**	432 652	
Total equity and liabilities	**476 365**	455 900	

Income statement

For the year ended 30 June 2018

	2018 Rm	2017 Rm	Notes
Insurance premiums	**42 788**	39 403	
Insurance premiums ceded to reinsurers	**(12 895)**	(11 212)	
Net insurance premiums	**29 893**	28 191	17
Fee income	**7 536**	7 411	18
Investment contracts	**2 384**	2 477	
Trust and fiduciary services	**1 506**	1 608	
Health administration	**1 780**	1 764	
Other fee income	**1 866**	1 562	
Investment income	**20 084**	18 958	19
Net realised and fair value gains	**17 786**	183	20
Net income	**75 299**	54 743	
Insurance benefits and claims	**33 889**	30 509	
Insurance claims recovered from reinsurers	**(6 657)**	(6 068)	
Net insurance benefits and claims	**27 232**	24 441	21
Change in actuarial liabilities and related reinsurance	**1 794**	(2 267)	
Change in long-term insurance contract liabilities	**1 612**	(1 437)	8.1
Change in short-term insurance contract liabilities	**(71)**	(86)	8.2.3
Change in investment contracts with DPF liabilities	**285**	(855)	9.1
Change in reinsurance assets	**(322)**	(278)	7
Change in reinsurance liabilities	**290**	389	12
Fair value adjustments on investment contract liabilities	**17 555**	6 650	9.2
Fair value adjustments on collective investment scheme liabilities	**2 738**	688	
Depreciation, amortisation and impairment expenses	**1 226**	1 665	22
Employee benefit expenses	**5 457**	5 249	23
Sales remuneration	**5 796**	5 283	24
Other expenses	**7 779**	7 367	25
Expenses	**69 577**	49 076	
Results of operations	**5 722**	5 667	
Share of loss of associates and joint ventures	**(213)**	(126)	5
Finance costs	**(1 048)**	(1 023)	26
Profit before tax	**4 461**	4 518	
Income tax expense	**(3 039)**	(2 937)	27
Earnings for year	**1 422**	1 581	
Attributable to:			
Owners of the parent	**1 369**	1 536	1
Non-controlling interests	**53**	45	
	1 422	1 581	
Basic earnings per ordinary share (cents)	**88.2**	98.4	1
Diluted earnings per ordinary share (cents)	**88.1**	98.1	1

Statement of comprehensive income

For the year ended 30 June 2018

	2018 Rm	2017 Rm	Notes
Earnings for year	**1 422**	1 581	
Other comprehensive income/(loss), net of tax	**138**	(103)	
Items that may subsequently be reclassified to income	**(6)**	(224)	
Exchange differences on translating foreign operations	**9**	(218)	16
Available-for-sale financial assets	**(7)**	(4)	16
Share of other comprehensive loss of associates	**(8)**	(2)	16
Items that will not be reclassified to income	**144**	121	
Land and building revaluation	**131**	142	16
Remeasurements of post-employee benefit funds	**14**	11	16
Income tax relating to items that will not be reclassified	**(1)**	(32)	16
Total comprehensive income for year	**1 560**	1 478	
Total comprehensive income attributable to:			
Owners of the parent	**1 507**	1 434	
Non-controlling interests	**53**	44	
	1 560	1 478	

Statement of changes in equity

For the year ended 30 June 2018

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2016	9	13 847	1 955	8 298	24 109	290	24 399	
Total comprehensive (loss)/income	–	–	(102)	1 536	1 434	44	1 478	
Income statement	–	–	–	1 536	1 536	45	1 581	
Other comprehensive loss	–	–	(102)	–	(102)	(1)	(103)	
Dividend paid	–	–	–	(2 456)	(2 456)	(53)	(2 509)	
Employee share scheme – value of services provided	–	–	(22)	–	(22)	–	(22)	
Increase in treasury shares held on behalf of contract holders	–	(124)	–	–	(124)	–	(124)	
Transfer to retained earnings from other reserves	–	–	(40)	40	–	–	–	16
Transactions with non-controlling interests	–	–	–	4	4	11	15	
Conversion of preference shares	–	14	–	–	14	–	14	
Change in non-distributable reserves	–	–	(3)	–	(3)	–	(3)	
Balance at 1 July 2017	**9**	**13 737**	**1 788**	**7 422**	**22 956**	**292**	**23 248**	
Total comprehensive income	**–**	**–**	**138**	**1 369**	**1 507**	**53**	**1 560**	
Income statement	**–**	**–**	**–**	**1 369**	**1 369**	**53**	**1 422**	
Other comprehensive income	**–**	**–**	**138**	**–**	**138**	**–**	**138**	
Dividend paid	**–**	**–**	**–**	**(1 442)**	**(1 442)**	**(32)**	**(1 474)**	
Employee share scheme – value of services provided	**–**	**–**	**43**	**–**	**43**	**–**	**43**	
Decrease in treasury shares held on behalf of contract holders	**–**	**14**	**–**	**–**	**14**	**–**	**14**	
Transfer to retained earnings from other reserves	**–**	**–**	**(196)**	**196**	**–**	**–**	**–**	16
Transactions with non-controlling interests[1]	**–**	**–**	**–**	**223**	**223**	**133**	**356**	
Business combinations	**–**	**–**	**–**	**–**	**–**	**16**	**16**	
Conversion of preference shares	**–**	**7**	**–**	**–**	**7**	**–**	**7**	
Change in non-distributable reserves	**–**	**–**	**(6)**	**–**	**(6)**	**–**	**(6)**	
Shares repurchased	**–**	**–**	**–**	**(974)**	**(974)**	**–**	**(974)**	
Balance at 30 June 2018	**9**	**13 758**	**1 767**	**6 794**	**22 328**	**462**	**22 790**	

[1] There were two transactions in the Health division in the current year. The difference between the consideration received and the net asset value of the relevant subsidiaries was recorded in equity.

Statement of cash flows

For the year ended 30 June 2018

	2018 Rm	2017 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(12 313)**	(12 702)	28.1
Interest received	**14 375**	13 750	
Dividends received	**4 561**	3 992	
Income tax paid	**(3 053)**	(3 463)	28.2
Interest paid	**(920)**	(991)	28.3
Net cash inflow from operating activities	**2 650**	586	
Cash flow from investing activities			
Acquisition of subsidiaries	**(98)**	(23)	29
Disposal of non-current assets held for sale	**–**	470	
Acquisition of associates and joint ventures	**(347)**	(93)	
Disposal of associates	**83**	38	
Loans advanced to related parties	**(75)**	(42)	
Loans repaid by related parties	**86**	75	
Dividends from associates	**2**	16	
Purchase of owner-occupied properties	**(107)**	(552)	
Proceeds from disposal of owner-occupied properties	**60**	8	
Purchase of property and equipment	**(137)**	(139)	
Proceeds from disposal of property and equipment	**20**	20	
Purchase of intangible assets	**(81)**	(163)	
Proceeds from sale of subsidiary	**–**	97	
Net cash outflow from investing activities	**(594)**	(288)	
Cash flow from financing activities			
Other equity transactions	**6**	(22)	
Increase/(Decrease) of treasury shares held on behalf of contract holders	**14**	(124)	
Transactions with minority shareholders	**356**	15	
Proceeds from borrowings	**5 693**	7 970	28.4
Repayment of borrowings	**(7 968)**	(7 423)	28.4
Subordinated call notes issued	**750**	–	28.4
Dividends paid to equity holders	**(1 442)**	(2 456)	
Shares repurchased	**(974)**	–	
Dividends paid to non-controlling interest shareholders	**(32)**	(53)	
Net cash outflow from financing activities	**(3 597)**	(2 093)	
Net cash flow	**(1 541)**	(1 795)	
Cash resources and funds on deposit at beginning	**27 353**	29 148	
Cash resources and funds on deposit at end	**25 812**	27 353	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**25 812**	27 353	6.6
	25 812	27 353	

Basis of preparation

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

Fair value

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

Other measurement basis

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

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

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

The preparation of the group's consolidated results was supervised by the group finance 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.

Published standards, amendments and interpretations effective for June 2018 financial period

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2017 and have been implemented in accordance with the transitional provisions of these standards:

- IAS 7 (Amendment) – Cash flow statements disclosure initiative
- IAS 12 (Amendment) – Clarification of recognition of deferred tax assets for unrealised losses

Improvements project amendments

- IFRS 12 – Disclosure of interests in other entities

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

Critical judgements and accounting estimates

Preparation of financial statements

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

Application of accounting policies

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

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

Segmental report

For the year ended 30 June 2018

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

The client-centric reporting view reflects the following segments:

- **Momentum Retail:** Momentum Retail offers a wide range of financial solutions to middle and affluent market segments. Our product range spans all major insurance lines (life, disability, health, motor, property, and all-risks) and a wide range of savings and investment products. We differentiate our business through the quality of our advice channels and our commitment to high levels of client engagement to encourage our clients to make choices that optimise their financial and physical wellness. Our most popular product solutions are retirement savings and life insurance. Momentum Retail is closely associated with Multiply, our client engagement programme. Clients who have Multiply active on their policies enjoy premium discounts, partner rewards and access to personal financial management tools. Multiply encourages clients to be more healthy and active.
- **Metropolitan Retail:** Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments. Metropolitan Retail's most popular products include funeral plans, savings policies, underwritten life cover policies, and annuities. Our funeral plans are low sum insured whole life policies designed to pay for funeral costs. To extend our distribution channels and expand our solutions basket, Metropolitan recently partnered with African Bank to offer insurance products to African Bank's client base and lending products to the existing Metropolitan client base.
- **Momentum Corporate:** Momentum Corporate provides insurance, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market. We also have a strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions.
- **International:** MMI International operates in the rest of Africa, India and the United Kingdom. We offer a wide range of solutions in these areas, with a focus on life, health and short-term insurance products. In Africa, life insurance is offered in nine countries and health insurance offered in seven as well as in India. Our Multiply wellness programme is only active in India at present, where it complements the health insurance offering. We have announced our plan to exit a number of African countries to improve focus on remaining operations.
- **Shareholder Capital:** The Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and some costs not allocated to operating segments (eg certain holding company expenses).

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

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

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

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

Reconciliation of management information to IFRS

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

Segmental report continued

For the year ended 30 June 2018

12 mths to 30.06.2018	Momentum Retail Rm	Metropolitan Retail Rm
Revenue		
Net insurance premiums	25 012	7 368
Recurring premiums	9 938	6 064
Single premiums	15 074	1 304
Fee income	3 330	178
Fee income	2 965	174
Intergroup fee income	365	4
Expenses		
Net payments to contract holders		
External payments	25 045	5 660
Other expenses	6 137	2 652
Sales remuneration	2 065	1 066
Administration expenses	3 064	1 392
Amortisation due to business combinations and impairments	–	58
Cell captive business	–	–
Direct property expenses	–	–
Asset management and other fee expenses	365	87
Holding company expenses	–	–
Intergroup expenses	643	49
Income tax	30	–
Diluted core headline earnings	920	570
Operating profit/(loss)	1 387	809
Tax on operating profit/(loss)	(525)	(239)
Investment income	77	–
Tax on investment income	(19)	–
Covered	1 096	611
Non-covered	(176)	(41)
	920	570
Actuarial liabilities	205 817	34 903

[1] The "International" column includes amounts received/incurred by companies the group has decided to exit: Net insurance premiums R682 million; external payments R481 million and administration expenses R103 million.

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

[3] The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 471 million, and the total of such non-current assets located in other countries is R617 million.

Momentum Corporate Rm	International[1] Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items[2] Rm	IFRS total Rm
28 562	4 363	–	65 305	(35 412)	29 893
18 642	3 751	–	38 395	(13 152)	25 243
9 920	612	–	26 910	(22 260)	4 650
4 654	839	85	9 086	(1 550)	7 536
4 001	740	–	7 880	(344)	7 536
653	99	85	1 206	(1 206)	–
30 002	2 714	–	63 421	(36 189)	27 232
6 212	2 344	280	17 625	2 633	20 258
2 024	623	–	5 778	18	5 796
2 995	1 284	731	9 466	65	9 531
22	31	46	157	715	872
153	–	–	153	2 092	2 245
–	–	–	–	460	460
258	46	27	783	489	1 272
–	–	82	82	–	82
760	360	(606)	1 206	(1 206)	–
1 312	98	27	1 467	1 572	3 039
903	(48)	464	2 809	–	2 809
1 099	(26)	(162)	3 107	–	3 107
(308)	(48)	6	(1 114)	–	(1 114)
155	32	787	1 051	–	1 051
(43)	(6)	(167)	(235)	–	(235)
425	191	538	2 861	–	2 861
478	(239)	(74)	(52)	–	(52)
903	(48)	464	2 809	–	2 809
135 394	14 228	–	390 342	–	390 342

Segmental report continued

For the year ended 30 June 2018

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

[1] The "International" column includes amounts received/incurred by companies the group has decided to exit: Net insurance premiums R524 million; external payments R359 million and administration expenses R113 million.

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

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

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

Segmental report continued

For the year ended 30 June 2018

Change in diluted core headline earnings	Change %	12 mths to 30.06.2018 Rm	12 mths to 30.06.2017 Rm
Momentum Retail	(28)	920	1 271
Metropolitan Retail	(14)	570	660
Momentum Corporate	8	903	835
International	71	(48)	(166)
Operating segments[1]	(10)	2 345	2 600
Shareholder Capital	(24)	464	608
Total diluted core headline earnings	(12)	2 809	3 208

[1] Includes investments in four main new initiatives being India, aYo, Money Management and MMI Lending of R322 million (2017: R195 million).

Segment by Centre of Excellence 12 mths to 30.06.2018	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Covered						
Operating profit/(loss)	1 096	611	425	191	(8)	2 315
Investment income	–	–	–	–	546	546
Total	1 096	611	425	191	538	2 861
Non-covered						
Investment and savings	1	–	91	99	–	191
Life insurance	–	–	–	(69)	–	(69)
Health	19	–	151	(156)	–	14
Short-term insurance	(56)	–	260	(3)	–	201
Client engagement	(140)	(29)	(8)	(19)	9	(187)
Unallocated expenses	–	–	–	–	(104)	(104)
Other operations	–	(12)	(16)	(91)	21	(98)
Total	(176)	(41)	478	(239)	(74)	(52)
Core earnings	920	570	903	(48)	464	2 809
12 mths to 30.06.2017						
Covered						
Operating profit	1 467	685	387	203	37	2 779
Investment income	–	–	–	–	611	611
Total	1 467	685	387	203	648	3 390
Non-covered						
Investment and savings	61	–	119	82	–	262
Life insurance	–	–	–	(111)	–	(111)
Health	(29)	–	136	(82)	–	25
Short-term insurance	(162)	(7)	200	(80)	–	(49)
Client engagement	(66)	(18)	(25)	(24)	12	(121)
Unallocated expenses	–	–	–	–	(60)	(60)
Other operations	–	–	18	(154)	8	(128)
Total	(196)	(25)	448	(369)	(40)	(182)
Core earnings	1 271	660	835	(166)	608	3 208

Momentum Investments Centre of Excellence – non-covered business 12 mths to 30.06.2018	Momentum Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Revenue	940	764	479	2 183
Fee income	872	713	413	1 998
Performance fees	1	–	–	1
Investment income	66	52	2	120
Fair value gains/(losses)	1	(1)	64	64
Expenses and finance costs	(905)	(630)	(378)	(1 913)
Fair value adjustments on investment contracts	–	–	(64)	(64)
Other expenses	(879)	(595)	(314)	(1 788)
Finance costs	(26)	(35)	–	(61)
Share of profit of associates	–	1	–	1
Profit before tax	35	135	101	271
Income tax expense	(34)	(23)	(2)	(59)
Non-controlling interest	–	(21)	–	(21)
Core earnings	1	91	99	191
Operating (loss)/profit before tax	(7)	109	98	200
Tax on operating (loss)/profit	(22)	(28)	(1)	(51)
Investment income	40	14	2	56
Tax on investment income	(10)	(4)	–	(14)
Diluted core headline earnings	1	91	99	191
Assets under management at year-end	304 880	117 080	74 951	496 911

Segmental report continued

For the year ended 30 June 2018

Momentum Investments Centre of Excellence – non-covered business Restated 12 mths to 30.06.2017[1]	Momentum Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Revenue	1 105	802	490	2 397
Fee income	1 041	656	386	2 083
Performance fees	3	13	–	16
Investment income	61	121	1	183
Fair value gains	–	12	103	115
Expenses and finance costs	(1 001)	(626)	(405)	(2 032)
Fair value adjustments on investment contracts	–	–	(103)	(103)
Other expenses	(992)	(577)	(302)	(1 871)
Finance costs	(9)	(49)	–	(58)
Share of profit of associates	–	1	–	1
Profit before tax	104	177	85	366
Income tax expense	(43)	(32)	(3)	(78)
Non-controlling interest	–	(26)	–	(26)
Core earnings	61	119	82	262
Operating profit before tax	61	90	84	235
Tax on operating profit	(30)	(11)	(3)	(44)
Investment income	43	55	1	99
Tax on investment income	(13)	(15)	–	(28)
Diluted core headline earnings	61	119	82	262
Assets under management at year-end	306 359	114 454	68 685	489 498

[1] The fee income and other expenses line items were being disclosed gross of intersegmental intercompanies. This is now being eliminated within the segment. The prior year has been restated.

Health Centre of Excellence – non-covered business 12 mths to 30.06.2018	Momentum Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Revenue	605	1 861	477	2 943
Net insurance premiums	217	382	274	873
Fee income	370	1 428	181	1 979
Investment income	13	24	22	59
Intergroup fees	5	27	–	32
Expenses and finance costs	(579)	(1 608)	(389)	(2 576)
Net payments to contract holders	(164)	(260)	(186)	(610)
Other expenses	(413)	(1 347)	(203)	(1 963)
Finance costs	(2)	(1)	–	(3)
Share of loss of associates	–	–	(188)	(188)
Profit/(Loss) before tax	26	253	(100)	179
Income tax expense	(7)	(68)	(31)	(106)
Non-controlling interest	–	(34)	(25)	(59)
Earnings attributable to ordinary shareholders	19	151	(156)	14
Operating profit/(loss) before tax	15	192	(154)	53
Tax on operating profit/(loss)	(4)	(56)	(19)	(79)
Investment income	11	21	18	50
Tax on investment income	(3)	(6)	(1)	(10)
Diluted core headline earnings	19	151	(156)	14
Closed schemes	–	104	61	165
Open scheme	26	12	(217)	(179)
Other	(7)	35	–	28
	19	151	(156)	14

	Open schemes	Closed schemes	Total
Momentum Retail principal members	114 018	–	114 018
Momentum Corporate principal members	52 130	818 296	870 426
International lives	1 049 726	399 590	1 449 316
	1 215 874	1 217 886	2 433 760

Segmental report continued

For the year ended 30 June 2018

Health Centre of Excellence – non-covered business Restated 12 mths to 30.06.2017[1]	Momentum Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Revenue	560	1 884	468	2 912
Net insurance premiums	209	390	259	858
Fee income	340	1 419	191	1 950
Investment income	11	27	18	56
Intergroup fees	–	48	–	48
Expenses and finance costs	(603)	(1 691)	(384)	(2 678)
Net payments to contract holders	(151)	(279)	(168)	(598)
Other expenses	(450)	(1 411)	(216)	(2 077)
Finance costs	(2)	(1)	–	(3)
Share of loss of associates	–	–	(105)	(105)
(Loss)/Profit before tax	(43)	193	(21)	129
Income tax expense	14	(57)	(36)	(79)
Non-controlling interests	–	–	(25)	(25)
Earnings attributable to ordinary shareholders	(29)	136	(82)	25
Operating (loss)/profit before tax	(53)	167	(72)	42
Tax on operating (loss)/profit	17	(49)	(24)	(56)
Investment income	10	26	15	51
Tax on investment income	(3)	(8)	(1)	(12)
Diluted core headline earnings	(29)	136	(82)	25
Closed schemes	–	106	66	172
Open scheme	(23)	(6)	(148)	(177)
Other	(6)	36	–	30
	(29)	136	(82)	25

	Open schemes	Closed schemes	Total
Momentum Retail principal members	108 244	–	108 244
Momentum Corporate principal members	50 380	834 061	884 441
International lives	207 882	404 756	612 638
	366 506	1 238 817	1 605 323

[1] The other expenses line item was being disclosed gross of intersegmental intercompanies. This is now being eliminated within the segment. The prior year has been restated.

Short-term Insurance Centre of Excellence 12 mths to 30.06.2018	Momentum Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Net insurance premiums	731	–	4	735
Fee income	6	656	15	677
Management fees	–	456	–	456
Investment fees	–	73	–	73
Underwriting fees	–	125	–	125
Other fee income	6	2	15	23
Investment income	41	117	1	159
Total income	778	773	20	1 571
Expenses and finance costs	(867)	(420)	(24)	(1 311)
Net payments to contract holders	(486)	–	(2)	(488)
Acquisition costs[1]	(113)	–	(8)	(121)
Other expenses	(268)	(409)	(14)	(691)
Finance costs	–	(11)	–	(11)
(Loss)/Profit before tax	(89)	353	(4)	260
Income tax expense	33	(93)	–	(60)
Non-controlling interest	–	–	1	1
Earnings attributable to ordinary shareholders	(56)	260	(3)	201
Operating (loss)/profit before tax	(109)	236	(4)	123
Tax on operating (loss)/profit	39	(60)	–	(21)
Investment income	20	116	1	137
Tax on investment income	(6)	(32)	–	(38)
Diluted core headline earnings	(56)	260	(3)	201
Ability	–	2	–	2
Momentum Short-term Insurance	8	–	–	8
MMI Short-term Insurance Administration	(64)	–	–	(64)
Guardrisk Group	–	258	–	258
Quanta Insurance (Namibia)	–	–	(3)	(3)
	(56)	260	(3)	201

[1] The acquisition costs relating to the Momentum Corporate segment are included in underwriting profit.

Segmental report continued

For the year ended 30 June 2018

Short-term Insurance Centre of Excellence 12 mths to 30.06.2017	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Total Rm
Net insurance premiums	616	–	–	148	764
Fee income	13	3	566	17	599
Management fees	–	–	435	–	435
Investment fees	–	–	73	–	73
Underwriting fees	–	–	58	–	58
Other fee income	13	3	–	17	33
Investment income	30	–	93	12	135
Fair value losses	–	–	–	(9)	(9)
Total income	659	3	659	168	1 489
Expenses and finance costs	(784)	(9)	(379)	(241)	(1 413)
Net payments to contract holders	(449)	–	–	(133)	(582)
Change in actuarial liabilities	–	–	–	7	7
Acquisition costs[1]	(122)	–	–	(34)	(156)
Other expenses	(213)	(9)	(367)	(81)	(670)
Finance costs	–	–	(12)	–	(12)
(Loss)/Profit before tax	(125)	(6)	280	(73)	76
Income tax expense	(37)	(1)	(80)	(9)	(127)
Non-controlling interest	–	–	–	2	2
Earnings attributable to ordinary shareholders	(162)	(7)	200	(80)	(49)
Operating (loss)/profit before tax	(130)	(6)	187	(71)	(20)
Tax on operating (loss)/profit	(34)	(1)	(54)	(9)	(98)
Investment income	3	–	93	–	96
Tax on investment income	(1)	–	(26)	–	(27)
Diluted core headline earnings	(162)	(7)	200	(80)	(49)
Momentum Short-term Insurance	(83)	–	–	–	(83)
MMI Short-term Insurance Administration	(79)	(7)	–	(25)	(111)
Guardrisk Group	–	–	200	–	200
Cannon Short-term	–	–	–	(55)	(55)
	(162)	(7)	200	(80)	(49)

[1] The acquisition costs relating to the Momentum Corporate segment are included in underwriting profit.

Notes to the financial statements

For the year ended 30 June 2018

	Basic earnings 2018	Basic earnings 2017	Diluted earnings 2018	Diluted earnings 2017
1 Group earnings per ordinary share				
Attributable to owners of the parent				
Earnings (cents per share)[1, 2]	**88.2**	98.4	**88.1**	98.1
Headline earnings (cents per share)	**93.0**	118.3	**92.9**	117.7
Core headline earnings (cents per share)	**179.4**	203.9	**176.0**	200.0

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings 2018 Rm	Basic earnings 2017 Rm	Diluted earnings 2018 Rm	Diluted earnings 2017 Rm
Earnings – equity holders of group	**1 369**	1 536	**1 369**	1 536
Finance costs – convertible preference shares			**40**	39
Dilutory effect of subsidiaries[3]			**(16)**	(14)
Diluted earnings			**1 393**	1 561
Realised gains on available-for-sale financial assets	**(13)**	–	**(13)**	–
Tax on realised gains on available-for-sale financial assets	**2**	–	**2**	–
Intangible assets and other impairments[4]	**97**	417	**97**	417
Tax on intangible assets and other impairments	**(16)**	(61)	**(16)**	(61)
Loss/(gain) on sale of business/subsidiary	**18**	(94)	**18**	(94)
Tax on loss/(gain) on sale of business/subsidiary	**–**	21	**–**	21
FCTR reversal on sale of foreign subsidiary	**(13)**	–	**(13)**	–
Impairment of owner-occupied property below cost	**–**	28	**–**	28
Headline earnings[5]	**1 444**	1 847	**1 468**	1 872
Net realised and fair value losses on excess	**40**	94	**40**	94
Basis and other changes and investment variances	**651**	458	**651**	458
Adjustments for MMI shares held by policyholder funds	**(32)**	(42)	**(32)**	(42)
Amortisation of intangible assets relating to business combinations	**543**	577	**543**	577
Non-recurring items[6]	**115**	249	**115**	249
BEE cost	**24**	–	**24**	–
Core headline earnings[7]	**2 785**	3 183	**2 809**	3 208
Weighted average number of ordinary shares in issue (million)	**1 552**	1 561	**1 552**	1 561
Adjustments for				
Assumed conversion of 28 million (2017: 29 million) preference shares (weighted)			**28**	30
Diluted weighted average – earnings and headline earnings (million)[8]			**1 580**	1 591
Treasury shares held on behalf of contract holders			**16**	13
Diluted weighted average – core headline earnings (million)[8]			**1 596**	1 604

Notes to the financial statements continued

For the year ended 30 June 2018

1 Group earnings per ordinary share *continued*

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

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

[3] MHC is consolidated at 51% (2017: 100%) and the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in earnings. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated. From June 2017, there is no longer a dilutory effect for MHC as all the shares which were held by KTH were purchased by the group in June 2017. The subsequent sale of the 49% shareholding in MHC in the current year does not have a dilutory effect.

[4] Current year impairments relate mainly to software in Metropolitan Retail as certain components are no longer used and goodwill in International due to a decline in the directors' valuation relating to a restructure of the UK businesses. The June 2017 period includes impairments relating to:
- Goodwill, customer relations and internally developed software (R213 million) in the International segment that were recognised on acquisition of subsidiaries as the companies are making losses. A risk discount rate of 18.2% has been used in the impairment calculation.
- Internally developed software in International (R88 million) and Metropolitan Retail (R76 million) whereby certain components will no longer be used and/or the costs to maintain the system exceed the economic benefits. A risk discount rate of 11.6% has been used in the impairment calculation.

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

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

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

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

ACC POLICY
Annex D4

		2018 Rm	2017 Rm
2	**Intangible assets**		
2.1	**Goodwill**	**1 124**	1 128
2.2	**Value of in-force business acquired**	**4 236**	4 527
2.3	**Customer relationships**	**1 349**	1 617
2.4	**Brands**	**746**	806
2.5	**Broker network**	**319**	281
2.6	**Deferred acquisition costs on long-term investment business**	**2 156**	2 196
	Deferred acquisition costs on short-term insurance business	**88**	88
2.7	**Computer software**	**497**	617
		10 515	11 260
2.1	**Goodwill**		
	Cost	**1 410**	1 393
	Accumulated impairment	**(286)**	(265)
	Carrying amount	**1 124**	1 128
	Carrying amount at beginning	**1 128**	1 237
	Business combinations (refer to note 29)	**27**	11
	Impairment charges	**(31)**	(100)
	Exchange differences	**–**	(20)
	Carrying amount at end	**1 124**	1 128
	Cash-generating units (CGUs)		
	Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	**170**	170
	MMI Health – Momentum Corporate and Momentum Retail	**127**	127
	Eris Property Group – Momentum Corporate	**191**	191
	Guardrisk – Momentum Corporate	**604**	567
	Other	**32**	73
		1 124	1 128

2 Intangible assets *continued*

2.1 Goodwill *continued*

Critical accounting estimates and judgements

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

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

Goodwill relating to the Financial Partners (International segment) acquisition was impaired in the current year due to a decline in directors' valuation relating to a restructure of the UK businesses. Financial Partners was included in the Other CGU in the table above in the prior year.

In the prior year, goodwill relating to the Cannon (International segment) and Momentum Financial Technology (International segment) acquisitions were fully impaired by R62 million and R38 million respectively due to these companies making losses.

	2018		2017	
	RDR	Growth rate	RDR	Growth rate
Assumptions				
Ex-Metropolitan group	**12%**	**7%**	12%	7%
MMI Health	**12%**	**7%**	12%	8%
Guardrisk	**12%**	**7%**	12%	8%
Cannon	**–**	**–**	18%	10%

Changes in the assumptions relating to the CGUs are not considered to be materially sensitive in the current or prior year. Eris Property Group uses a price-earnings ratio to calculate the value-in-use of their CGUs. The current year ratio was 8.33 (2017: 8.33).

Notes to the financial statements continued

For the year ended 30 June 2018

			2018 Rm	2017 Rm
2	**Intangible assets** *continued*			
2.2	**Value of in-force business acquired**			
	Acquisition of insurance and investment contracts with DPF			
	Cost		**6 782**	6 782
	Accumulated amortisation		**(2 546)**	(2 255)
	Carrying amount		**4 236**	4 527
	Carrying amount at beginning		**4 527**	4 844
	Amortisation charges		**(291)**	(317)
	Carrying amount at end		**4 236**	4 527
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Sage – Shareholder Capital	2032	**596**	639
	Momentum Namibia – International	2041	**203**	216
	Metropolitan/Momentum merger			
	Metropolitan Retail	2041	**2 673**	2 819
	Momentum Corporate	2041	**548**	577
	International	2041	**150**	196
	Guardrisk – Momentum Corporate	2034	**64**	76
	Other		**2**	4
			4 236	4 527

As a result of certain insurance contract acquisitions, the group carries an intangible asset representing the VIF acquired.

Critical accounting estimates and judgements

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

		2018 Rm	2017 Rm
2 Intangible assets *continued*			
2.3 Customer relationships			
Cost		**4 456**	4 361
Accumulated amortisation		**(3 025)**	(2 655)
Accumulated impairment		**(82)**	(89)
Carrying amount		**1 349**	1 617
Carrying amount at beginning		**1 617**	2 061
Business combinations (refer to note 29)		**107**	11
Amortisation charges		**(374)**	(368)
Impairment charges		**–**	(84)
Exchange differences		**(1)**	(3)
Carrying amount at end		**1 349**	1 617
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan/Momentum merger			
Employee benefits business – Momentum Corporate	2021	**358**	506
Investment contracts – Momentum Corporate	2021	**493**	520
Metropolitan Health Namibia Administrators – International	2019	**9**	44
Guardrisk – Momentum Corporate	2024	**256**	205
Providence – Momentum Corporate	2023	**78**	67
CareCross – Momentum Corporate	2019	**73**	147
Cannon – International	2020	**24**	35
Other[1]		**58**	93
		1 349	1 617

[1] Other includes customer relations relating to smaller acquisitions. Included in Other is exchange rate differences of negative R1 million (2017: negative R3 million).

Customer relationships represent the fair value of customer relationships in place immediately before a business combination took place. The recoverable value is determined based on value-in-use calculations with reference to value of in-force business. Refer to assumptions in note 2.1.

Using value in use calculations with a discount rate of 18.2% the customer relationships asset relating to the Cannon (International segment) acquisition was impaired by R63 million during the prior year due to the company making losses. Customer relationships relating to the Momentum Financial Technology (International segment) acquisition were fully impaired by R20 million as the company was also making losses.

Notes to the financial statements continued

For the year ended 30 June 2018

			2018 Rm	2017 Rm
2	**Intangible assets** *continued*			
2.4	**Brands**			
	Cost		**1 208**	1 208
	Accumulated amortisation		**(444)**	(384)
	Accumulated impairment		**(18)**	(18)
	Carrying amount		**746**	806
	Carrying amount at beginning		**806**	886
	Amortisation charges		**(60)**	(62)
	Impairment charges		**–**	(18)
	Carrying amount at end		**746**	806
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan brand – Metropolitan Retail (Metropolitan/ Momentum merger)	2031	**668**	722
	Momentum Namibia brand – International	2027	**16**	18
	Guardrisk brand – Momentum Corporate	2034	**62**	66
			746	806
	The CareCross brand of R18 million (Momentum Corporate) was written off during the prior year as it will no longer be used.			
2.5	**Broker network**			
	Cost		**561**	490
	Accumulated amortisation		**(242)**	(209)
	Carrying amount		**319**	281
	Carrying amount at beginning		**281**	303
	Business combinations (refer to note 29)		**71**	–
	Amortisation charges		**(33)**	(22)
	Carrying amount at end		**319**	281
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Quanta Insurance (Namibia) – International	2022	**61**	–
	Guardrisk (non-life) – Momentum Corporate	2029	**194**	213
	Guardrisk (life) – Momentum Corporate	2034	**64**	68
			319	281

	2018 Rm	2017 Rm
2 Intangible assets *continued*		
2.6 Deferred acquisition costs on long-term insurance business		
Carrying amount at beginning	**2 196**	2 202
Additions	**619**	371
Amortisation charges	**(661)**	(372)
Impairment charges	**–**	(3)
Exchange differences	**2**	(2)
Carrying amount at end	**2 156**	2 196
2.7 Computer software		
Cost	**1 376**	1 370
Accumulated amortisation	**(498)**	(440)
Accumulated impairment	**(381)**	(313)
Carrying amount	**497**	617
Carrying amount at beginning	**617**	822
Additions	**81**	163
Sale of business	**(7)**	–
Business combinations (refer to note 29)	**5**	–
Amortisation charges	**(134)**	(148)
Impairment charges	**(66)**	(215)
Exchange differences	**1**	(5)
Carrying amount at end	**497**	617

Internally developed software used by Metropolitan Retail was impaired by R58 million (2017: R76 million) due to a change in scope and operating model resulting in certain components no longer being used. Internally developed software used by International was impaired by R88 million in the prior year as the costs to maintain the systems are expected to exceed the economic benefits.

Internally developed software

Included in computer software is a carrying value of R202 million (2017: R301 million) representing internally developed software.

Material computer software

The Momentum Retail segment has computer software of R93 million (2017: R88 million) relating to Momentum Short-term Insurance's line of business system which will be fully amortised by 2027. For impairment testing purposes, a cost of capital of 14% (2017: 14%) was used to present value the future economic benefits of the software. No impairment was required.

Guardrisk (Momentum Corporate) has computer software of R44 million (2017: R56 million) relating to cell captive and product administration systems which will be fully amortised by 2024. For valuation purposes a RDR of 12% (2017: 12%) and a growth rate of 7% (2017: 8%) was used. No impairment was required.

MMI Multiply (all segments) has computer software of R108 million (2017: R107 million) relating to the wellness and rewards platform which will be fully amortised by 2026. For valuation purposes a RDR of 15% (2017: 12%) was used. No impairment was required.

ACC POLICY
Annex D5

		2018 Rm	2017 Rm
3	**Owner-occupied properties**		
	Owner-occupied properties – at fair value	**3 864**	4 105
	Historical carrying value – cost model	**2 736**	3 053
	Fair value at beginning	**4 105**	3 112
	Additions	**107**	552
	Disposals	**(60)**	(8)
	Revaluations	**44**	144
	Depreciation charges	**(75)**	(77)
	Impairment charges	**–**	(28)
	Transfer (to)/from investment properties	**(260)**	416
	Exchange differences	**3**	(6)
	Fair value at end	**3 864**	4 105

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

Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements

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

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Capitalisation rate	**8.0% – 11.0%**	**10%**	**128**	**(104)**
Discount rate	**13.0% – 16.0%**	**10%**	**83**	**(109)**

Capitalisation and discount rates (2017: 9.0% – 10.0% and 14.0% – 15.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

ACC POLICY
Annex D6

		2018 Rm	2017 Rm
4	**Investment properties**		
	At 30 June, investment properties comprised the following property types:		
	Industrial	**286**	440
	Shopping malls	**3 707**	3 710
	Office buildings	**2 068**	1 601
	Hotels	**264**	250
	Vacant land	**66**	642
	Other	**2 475**	945
	Property at valuation	**8 866**	7 588
	Accelerated rental income (refer to note 6.5)	**(252)**	(248)
		8 614	7 340
	Investment properties under development		
	Fair value at beginning	**691**	763
	Capitalised development expenditure	**1 196**	262
	Revaluations	**8**	–
	Transfer from/(to) owner-occupied properties	**168**	(334)
	Fair value at end	**2 063**	691
	Completed properties		
	Fair value at beginning	**6 649**	6 659
	Capitalised subsequent expenditure	**24**	67
	Additions	**61**	145
	Disposals	**(594)**	(326)
	Revaluations	**329**	230
	Change in accelerated rental income	**(4)**	(24)
	Transfer from/(to) owner-occupied properties	**92**	(82)
	Exchange differences and other	**(6)**	(20)
	Fair value at end	**6 551**	6 649

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

Investment properties and non-current assets held for sale are classified as level 3.

4 Investment properties *continued*

Critical accounting estimates and judgements

All properties were internally or externally valued using a DCF method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2018, amounting to 10% (2017: 21%) of the portfolio for the group. Eris is responsible for the majority of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	Base assumption	Change in assumption	Change in fair value: Decrease in assumption Rm	Change in fair value: Increase in assumption Rm
Capitalisation rate	7.6% – 9.7%	10%	307	(703)
Discount rate	12.7% – 14.2%	10%	115	(726)

Capitalisation and discount rates (2017: 9.0% – 10.0% and 13.0% – 15.0% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

ACC POLICY
Annex D2.2 and 2.3

	2018 Rm	2017 Rm
5 Investments in associates and joint ventures		
Carrying amount at beginning	595	680
Additions	347	94
Disposals	(83)	(37)
Share of loss	(213)	(126)
Dividends paid	(2)	(16)
Exchange differences	(8)	–
Carrying amount at end – non-current	636	595

2018 Equity-accounted associates and joint ventures*	%**	Carrying value Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	379	713	(504)	304	(188)
RMI Investment Managers Affiliates 2 (Pty) Ltd (RMI)	49%	82	296	(122)	8	(9)
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	47	52	(37)	111	5
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	34	296	(223)	30	5
Other		38	***	***	***	5
		580				(182)
Joint ventures						
aYo Holdings Ltd (aYo)	50%	47	122	2	1	(19)
MMI Lending (Lending)		9	73	64	4	(12)
		56				(31)

5 Investments in associates and joint ventures *continued*

2017 Equity-accounted associates and joint ventures*	%**	Carrying value Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	353	329	(173)	14	(105)
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	42	26	(31)	90	(4)
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	38	707	(547)	60	14
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	78	509	(4)	(50)	(10)
Other		61	***	***	***	(7)
		572				(112)
Joint ventures						
aYo Holdings Ltd (aYo)	50%	23	125	1	–	(14)

* All entities' principal place of business is in South Africa unless otherwise stated.
** Effective group percentage held.
*** This amount consists of various associates' financial information.
\# This represents the actual assets, liabilities and revenue of the associate at the end of the financial year.

- ABHIL is a health insurance business and was formed by MMI Strategic Investments (Pty) Ltd (MMISI) and Aditya Birla Financial Services Ltd (incorporated in India). The carrying amount of the associate includes funding advanced to the company in addition to the capital acquired. The total assets consist of R178 million current assets and R535 million non-current assets. The total liabilities consist of R503 million current liabilities and R1 million non-current liabilities. The principal place of business is in India.
- RMI is an investment company that invests in asset management business.
- Aluwani is an asset management services company that is 40% held by MMISI in the Momentum Corporate segment.
- EPF CV (Momentum Corporate segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The group also owns 31.67% of the preference shares in EPF. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- aYo is a joint venture between MMISI and MTN (Dubai). aYo is a micro insurer for the African market.
- Lending is a joint venture between MMISI and African Bank. The joint venture comprises lending, insurance and transactional banking.
- KEIF relates to an associate held by a consolidated collective investment scheme. The investment was sold during the current year.

Notes to the financial statements continued

For the year ended 30 June 2018

6 Financial assets

ACC POLICY
Annex D7 and 9

The group classifies its financial assets into the following categories:

- Financial assets at fair value through income, including derivative financial assets
- Loans and receivables
- Available-for-sale financial assets
- Held-to-maturity financial assets

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

		2018 Rm	2017 Rm
	The group's financial assets are summarised below:		
6.1	**Financial assets designated at fair value through income**	395 146	369 205
6.2	**Investments in associates designated at fair value through income**	11 383	15 039
6.3	**Derivative financial assets**	2 910	2 439
	Available-for-sale financial assets	–	18
6.4	**Loans and receivables (excluding prepayments)**	5 433	7 077
6.5	**Insurance and other receivables (excluding accelerated rental income)**	4 710	4 373
6.6	**Cash and cash equivalents**	25 812	27 353
	Held-to-maturity financial assets	437	397
	Total financial assets	445 831	425 901
6.1	**Financial assets designated at fair value through income**		
	Equity securities	104 199	101 290
	Debt securities	108 618	99 645
	Funds on deposit and other money market instruments	27 524	26 616
	Unit-linked investments	154 805	141 654
		395 146	369 205
	Open-ended	259 846	243 960
	Current	45 358	43 720
	Non-current	89 942	81 525
	1 to 5 years	37 845	31 766
	5 to 10 years	17 985	14 982
	> 10 years	34 112	34 777
		395 146	369 205

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.

		2018 Rm	2017 Rm
6.2	**Investments in associates designated at fair value through income**		
	Collective investment schemes (refer to Annexure B)	11 383	15 039

	2018		2017	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6 Financial assets *continued*				
6.3 Derivative financial instruments				
Held for trading	**2 910**	**2 255**	2 439	1 827
Current	**1 178**	**374**	333	123
Non-current	**1 732**	**1 881**	2 106	1 704
	2 910	**2 255**	2 439	1 827

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

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

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

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

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

Notes to the financial statements continued

For the year ended 30 June 2018

	2018 Effective exposure Rm	2018 Assets Rm	2018 Liabilities Rm	2017 Effective exposure Rm	2017 Assets Rm	2017 Liabilities Rm
6 Financial assets *continued*						
6.3 Derivative financial instruments *continued*						
Derivatives held for trading						
Equity derivatives		125	165		92	64
Options, exchange traded	301	13	–	(265)	49	–
Futures, exchange traded	1 992	112	131	407	38	45
Swaps, OTC	(34)	–	34	(13)	5	19
Interest rate derivatives		2 749	1 044		2 335	925
Options, OTC	(174)	9	–	(210)	14	–
Swaps, OTC	1 714	2 740	1 044	1 403	2 321	925
Bonds		8	98		1	37
Options, exchange traded	47	–	–	58	–	–
Futures, OTC	3 511	8	98	1 974	1	36
Futures, exchange traded	2 017	–	–	1 326	–	1
Credit derivatives		5	4		6	2
Swaps, OTC	1	5	4	4	6	2
Currency derivatives		23	944		5	799
Futures, OTC	1 022	7	1	366	5	4
Futures, exchange traded	(22)	16	–	(134)	–	–
Swaps, OTC	(943)	–	943	(795)	–	795
Total derivative financial instruments		2 910	2 255		2 439	1 827

6 Financial assets *continued*

6.3 Derivative financial instruments *continued*

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

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

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

Offsetting

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

	2018 Rm	2017 Rm
Derivative financial assets		
Gross and net amounts of recognised financial assets[1]	**2 910**	2 439
Related amounts not set off in the statement of financial position		
Financial instruments	**(779)**	(689)
Net amount	**2 131**	1 750
Derivative financial liabilities		
Gross and net amounts of recognised financial liabilities[1]	**2 255**	1 827
Related amounts not set off in the statement of financial position		
Financial instruments	**(779)**	(639)
Net amount	**1 476**	1 188

[1] No offsetting in current and prior year.

		2018 Rm	2017 Rm
6	**Financial assets** *continued*		
6.4	**Loans and receivables**		
	Accounts receivable (excluding prepayments)	**2 138**	3 747
	Unsettled trades	**602**	557
	Loans	**2 693**	2 773
	Related party loans		
	Staff loans	**67**	76
	Loans due from associates	**94**	93
	Preference shares	**102**	111
	Empowerment partners	**263**	271
	Other related party loans	**95**	156
	Less: provision for impairment on related party loans	**(12)**	(37)
	Other loans		
	Due from agents, brokers and intermediaries	**405**	424
	Less: provision for impairment	**(127)**	(147)
	Policy loans	**1 383**	1 469
	Other	**423**	357
	Total included in financial assets	**5 433**	7 077
	Prepayments	**196**	216
	Total loans and receivables	**5 629**	7 293
	Current	**5 237**	6 852
	Non-current	**392**	441
		5 629	7 293
	Reconciliation of aggregated provision accounts		
	Balance at beginning	**184**	150
	Additional provision	**14**	67
	Utilised/reversed during year	**(24)**	(66)
	Other	**(35)**	33
	Balance at end	**139**	184

6 **Financial assets** *continued*

6.4 **Loans and receivables** *continued*

Terms and conditions of material loans

- The R263 million (2017: R271 million) loan to empowerment partners relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2019 (after extending it under the same terms by 18 months in the current year).
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 11% (2017: 11%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

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

		2018 Rm	2017 Rm
6.5	**Insurance and other receivables**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 631	4 292
	Insurance contract holders	2 291	2 302
	Investment contract holders with DPF	216	225
	Cell captives	1 206	1 119
	Less: provision for impairment	(116)	(74)
	Due from reinsurers	1 034	720
	Other	79	81
	Total included in financial assets	4 710	4 373
	Accelerated rental income	252	248
	Total insurance and other receivables	4 962	4 621
	Current	4 819	4 368
	Non-current	143	253
		4 962	4 621

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

Impairment is mainly due to expected payment defaults.

		2018 Rm	2017 Rm
6.6	**Cash and cash equivalents**		
	Bank and other cash balances	11 002	11 414
	Funds on deposit and other money market instruments – maturity < 90 days	14 810	15 939
		25 812	27 353

Notes to the financial statements continued

For the year ended 30 June 2018

6 Financial assets *continued*

6.7 Credit risk

Refer to note 41 for detail on the credit risk management.

	2018 Rm	2017 Rm
Credit risk exposure		
The group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying values:		
Designated at fair value through income		
Debt securities	108 618	99 645
Stock and loans to government and other public bodies	46 332	44 325
Other debt instruments	62 286	55 320
Funds on deposit and other money market instruments	27 524	26 616
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	23 139	24 675
Collective investment schemes	20 633	22 492
Other unit-linked investments	2 506	2 183
Derivative financial assets – Held for trading	2 910	2 439
Held-to-maturity	437	397
Loans and receivables	5 433	7 077
Accounts receivable	2 138	3 747
Unsettled trades	602	557
Loans	2 693	2 773
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 631	4 292
Cash and cash equivalents	25 812	27 353
Total assets bearing credit risk	198 504	192 494

Credit quality

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

6 Financial assets *continued*

6.7 Credit risk *continued*

Credit quality *continued*

2018	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	35 887	8 475	989	331	39	150	461	46 332
Debt securities – other debt instruments	10 899	39 468	7 887	1 114	745	372	1 801	62 286
Cash and cash equivalents and funds on deposit	4 084	39 528	4 870	960	2 106	92	1 696	53 336
Derivative financial instruments	940	1 841	102	–	–	–	27	2 910
Held-to-maturity	–	–	–	–	–	–	437	437
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	5 433	5 433
Other receivables	–	–	–	–	–	–	4 185	4 185
Unit-linked investments[1]	–	–	–	–	–	–	23 139	23 139
Past due or impaired assets	–	–	–	–	–	–	446	446
	51 810	89 312	13 848	2 405	2 890	614	37 625	198 504

2017	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	31 484	7 992	4 284	115	110	–	340	44 325
Debt securities – other debt instruments	9 402	17 855	22 272	1 683	2 068	38	2 002	55 320
Cash and cash equivalents and funds on deposit	3 255	12 902	31 325	2 745	2 060	32	1 650	53 969
Derivative financial instruments	499	167	1 715	–	–	–	58	2 439
Held-to-maturity	36	–	–	–	–	–	361	397
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	6 984	6 984
Other receivables	–	–	–	–	–	–	4 217	4 217
Unit-linked investments[1]	–	–	–	–	–	–	24 675	24 675
Past due or impaired assets	–	–	–	–	–	–	168	168
	44 676	38 916	59 596	4 543	4 238	70	40 455	192 494

[1] Refer to Annexure B for detail on unit-linked investments and note 41 for credit risk management relating to unit-linked investments.

6 Financial assets *continued*

6.7 Credit risk *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the group has reinsured of R1 034 million (2017: R720 million) (included in note 6.5) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

	2018		2017	
Reinsurer	**Reinsured portion – %**	**Credit rating**	**Reinsured portion – %**	**Credit rating**
Swiss Re	**29%**	**AA**	32%	AA
General Cologne Re	**24%**	**AA**	27%	AA
Hannover Re	**5%**	**AA**	5%	AA
RGA Re	**13%**	**AA**	8%	AA
Munich Re	**27%**	**AA**	26%	AA
Other	**2%**	**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:

2018	**0 – 90 days Rm**	**90 days – 1 year Rm**	**1 – 5 years Rm**	**> 5 years Rm**	**Total Rm**
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	**165**	**3**	**29**	**1**	**198**
Accounts receivable	**989**	**453**	**76**	**–**	**1 518**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**744**	**123**	**29**	**13**	**909**
	1 898	**579**	**134**	**14**	**2 625**
2017					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	152	6	18	1	177
Accounts receivable	1 998	317	99	–	2 414
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	536	101	87	13	737
	2 686	424	204	14	3 328

Financial assets designated at fair value through income

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

6 Financial assets *continued*

6.7 Credit risk *continued*

Credit quality *continued*

Credit quality of reinsurers *continued*

	Carrying value 2018 Rm	Carrying value 2017 Rm
Debt securities	78 269	70 157
Funds on deposit and other money market instruments	25 873	24 869
	104 142	95 026

6.8 Financial assets hierarchy

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

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

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities designated at fair value through income	272 668	118 701	3 777	395 146
Equity securities				
Local listed	80 730	1	1	80 732
Foreign listed	22 138	1 074	176	23 388
Unlisted	–	19	61	80
Debt securities				
Stock and loans to government and other public bodies				
Local listed	27 061	11 901	–	38 962
Foreign listed	1 157	2 131	2	3 290
Unlisted	–	3 866	214	4 080
Other debt instruments				
Local listed	143	30 742	50	30 935
Foreign listed	–	2 299	89	2 388
Unlisted	–	27 511	1 453	28 964
Funds on deposit and other money market instruments	–	27 524	–	27 524
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	93 158	715	–	93 873
Foreign unlisted or listed quoted	47 959	79	69	48 107
Foreign unlisted unquoted	–	592	505	1 097
Other unit-linked investments				
Local unlisted or listed quoted	322	3 586	22	3 930
Local unlisted unquoted	–	6 661	1 054	7 715
Foreign unlisted unquoted	–	–	81	81
Investments in associates designated at fair value through income[1]	11 383	–	–	11 383
Derivative financial instruments – Held for trading	116	2 794	–	2 910
	284 167	121 495	3 777	409 439

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

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

Notes to the financial statements continued

For the year ended 30 June 2018

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
6 Financial assets *continued*				
6.8 Financial assets hierarchy *continued*				
Securities designated at fair value through income	255 266	109 260	4 679	369 205
Equity securities				
Local listed	80 614	96	14	80 724
Foreign listed	19 322	1 013	87	20 422
Unlisted	–	4	140	144
Debt securities				
Stock and loans to government and other public bodies				
Local listed	28 399	9 817	–	38 216
Foreign listed	844	1 800	26	2 670
Unlisted	–	3 363	76	3 439
Other debt instruments				
Local listed	22	25 237	15	25 274
Foreign listed	11	401	81	493
Unlisted	–	28 106	1 447	29 553
Funds on deposit and other money market instruments	–	26 616	–	26 616
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	85 031	309	3	85 343
Foreign unlisted or listed quoted	38 433	57	17	38 507
Foreign unlisted unquoted	–	456	521	977
Other unit-linked investments				
Local unlisted or listed quoted	726	7 417	1	8 144
Local unlisted unquoted	1 820	4 538	2 190	8 548
Foreign unlisted unquoted	–	–	61	61
Foreign unlisted or listed quoted	44	30	–	74
Investments in associates designated at fair value through income[1]	15 039	–	–	15 039
Derivative financial instruments – Held for trading	36	2 399	4	2 439
Available-for-sale	18	–	–	18
	270 359	111 659	4 683	386 701

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

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

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

	Designated at fair value through income			Held for trading	
2018	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked invest-ments Rm**	**Derivative financial instruments Rm**	**Total Rm**
Opening balance	**241**	**1 645**	**2 793**	**4**	**4 683**
Transfer from other asset classes	**–**	**–**	**138**	**–**	**138**
Total (losses)/gains in net realised and fair value gains in the income statement					
Realised (losses)/gains	**(3)**	**35**	**869**	**–**	**901**
Unrealised (losses)/gains	**(13)**	**14**	**45**	**–**	**46**
Accrued interest in investment income in the income statement	**–**	**12**	**–**	**–**	**12**
Total gains in other comprehensive income	**2**	**–**	**–**	**–**	**2**
Purchases	**96**	**786**	**1 025**	**–**	**1 907**
Sales	**(132)**	**(803)**	**(3 236)**	**–**	**(4 171)**
Settlements	**–**	**(160)**	**–**	**–**	**(160)**
Transfers into level 3[1]	**70**	**404**	**97**	**–**	**571**
Transfers out of level 3	**(23)**	**(125)**	**–**	**(4)**	**(152)**
Closing balance	**238**	**1 808**	**1 731**	**–**	**3 777**
2017					
Opening balance	253	1 964	2 859	–	5 076
Total (losses)/gains in net realised and fair value gains in the income statement					
Realised gains/(losses)	12	(16)	540	–	536
Unrealised (losses)/gains	(90)	33	(22)	2	(77)
Accrued interest in investment income in the income statement	–	100	–	–	100
Purchases	107	1 571	4 186	2	5 866
Sales	(134)	(1 512)	(4 770)	–	(6 416)
Settlements	–	(625)	–	–	(625)
Transfers into level 3	93	130	–	–	223
Closing balance	241	1 645	2 793	4	4 683

The amount of total gains and losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R100 million (2017: R85 million) for the group.

1 The transfer into level 3 debt securities relates mainly to assets where certain unobservable inputs are now considered to be significant and assets with stale prices in the current year.

For the year ended 30 June 2018

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

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

	Designated at fair value through income			Held for trading	
2018	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked investments Rm**	**Derivative financial instruments Rm**	**Total Rm**
Carrying value	**238**	**1 808**	**1 731**	**–**	**3 777**
Assumption change	**10% increase/ (decrease) in markets**	**1% increase/ (decrease) in interest rates**	**10% increase/ (decrease) in unit price**	**N/A**	
Effect of increase in assumption	**24**	**40**	**173**	**N/A**	
Effect of decrease in assumption	**(24)**	**(36)**	**(173)**	**N/A**	
2017					
Carrying value	241	1 645	2 793	4	4 683
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	24	31	279	(1)	
Effect of decrease in assumption	(24)	(26)	(279)	1	

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

	2018		2017	
	Carrying value Rm	**Fair value Rm**	**Carrying value Rm**	**Fair value Rm**
Held-to-maturity financial assets	**437**	**437**	397	397
Loans and receivables	**5 433**	**5 433**	7 077	7 076
Loans	**2 693**	**2 693**	2 773	2 772
Accounts receivable	**2 138**	**2 138**	3 747	3 747
Unsettled trades	**602**	**602**	557	557
Insurance and other receivables	**4 710**	**4 710**	4 373	4 373
Cash and cash equivalents	**25 812**	**25 812**	27 353	27 353
	36 392	**36 392**	39 200	39 199

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

Calculation of fair value

- For accounts receivable, cash and cash equivalents and receivables arising from investment contracts, the carrying value approximates fair value due to their short-term nature.
- The fair value of the loan to empowerment partners of R263 million (2017: R271 million) equals the carrying value as it is expected to be repaid by 29 June 2019. For 2017, the expected cash flows were discounted at 9.6%.
- For policy loans, the fair value of R1 402 million (2017: R1 498 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 9.6% (2017: 9.4%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The fair values in the table on the previous page are level 2.

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	2018 Rm	2017 Rm
7 Reinsurance contract assets		
Reinsurance asset relating to long-term insurance	**2 247**	1 940
Reinsurance asset relating to cell captive business	**2 012**	1 880
Prepaid reinsurance	**730**	675
	4 989	4 495
Balance at beginning	**4 495**	5 092
Movement charged to income statement	**322**	278
Attributable to non-cell captive business	**265**	206
Attributable to cell captive business	**57**	72
Business combinations (refer to note 29)	**16**	–
Cell captive premiums	**27**	13
First-party cell captives	**(208)**	(1 153)
Third-party cell captives	**300**	270
Other	**26**	17
Exchange differences	**11**	(22)
Balance at end	**4 989**	4 495
Current	**3 976**	3 531
Non-current	**1 013**	964
	4 989	4 495

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

Amounts due from reinsurers in respect of claims incurred by the group on contracts that are reinsured are included in insurance and other receivables. Refer to note 6.5.

Notes to the financial statements continued

For the year ended 30 June 2018

ACC POLICY
Annex D10

	2018 Rm	2017 Rm
8 Insurance contracts		
8.1 Long-term insurance contracts		
8.1.1 Long-term insurance contract liabilities	**107 749**	104 962
8.1.2 Liabilities to third-party cell captive owners	**1 445**	1 605
	109 194	106 567
Open-ended	**18 884**	17 981
Current	**13 248**	11 459
Non-current	**77 062**	77 127
	109 194	106 567
Movement in long-term insurance contracts		
8.1.1 Long-term insurance contract liabilities		
Balance at beginning	**104 962**	106 085
Transfer to policyholder liabilities under insurance contracts	**2 754**	(645)
Increase/(decrease) in retrospective liabilities	**1 770**	(224)
Unwind of discount rate	**3 243**	3 686
Expected release of margins	**(3 127)**	(3 157)
Expected cash flows	**(3 987)**	(4 438)
Change in economic assumptions	**9**	–
Change in non-economic assumptions	**733**	430
New business	**3 224**	3 159
Experience variances	**982**	(35)
Other	**(93)**	(66)
Other	**(31)**	(240)
Exchange differences	**64**	(238)
Balance at end	**107 749**	104 962
8.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	**1 605**	1 008
Charge to the income statement	**(1 142)**	(792)
Net cash flows	**5 035**	4 233
Changes in share capital, dividends and other items relating to cell captives[1]	**(4 053)**	(2 844)
Balance at end	**1 445**	1 605

[1] Relates mainly to cell captive expenses like binder fees, administration fees and commission as well as dividends paid to cell owners.

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	2018 Rm	2017 Rm
8 Insurance contracts *continued*		
8.2 Short-term insurance contracts		
8.2.1 Unearned premium provision	**4 079**	3 737
8.2.2 Outstanding claims	**2 200**	1 844
8.2.3 Liabilities to third-party cell captive owners	**2 449**	2 080
Total	**8 728**	7 661
Open-ended	**2 480**	1 886
Current	**4 301**	5 695
Non-current	**1 947**	80
	8 728	7 661
Movement in short-term insurance contracts		
8.2.1 Unearned premium provision		
Balance at beginning	**3 737**	3 431
Business combinations (refer to note 29)	**12**	–
Movement in unearned premium provision		
Premium income received	**3 421**	3 186
Recognition of premium income	**(3 105)**	(2 859)
Exchange differences	**14**	(21)
Balance at end	**4 079**	3 737
8.2.2 Outstanding claims		
Balance at beginning	**1 844**	1 887
Business combinations (refer to note 29)	**10**	–
Increase in outstanding claims	**198**	30
Other	**128**	(34)
Exchange differences	**20**	(39)
Balance at end	**2 200**	1 844
8.2.3 Liabilities to third-party cell captive owners		
Balance at beginning	**2 080**	1 660
Charge to the income statement	**(71)**	(86)
Cell tax	**(270)**	(288)
Net fair value gains on assets at fair value through income	**199**	202
Cell captive income	**535**	327
Net cash flows	**593**	948
Dividends paid	**(716)**	(733)
Other	**12**	–
Exchange differences	**16**	(36)
Balance at end	**2 449**	2 080

Refer to note 10 for the assumptions and estimates used.

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		2018 Rm	2017 Rm
9	**Investment contracts**		
9.1	**Investment contracts with DPF**	**24 550**	24 338
9.2	**Investment contracts designated at fair value through income**	**247 861**	233 434
9.2.1	***Investment contract liabilities designated at fair value through income***	**238 754**	224 801
9.2.2	***Liabilities to first-party cell captive owners***	**9 107**	8 633
	Total investment contract liability	**272 411**	257 772
	Movement in investment contracts with DPF		
9.1	**Investment contracts with DPF**		
	Balance at beginning	**24 338**	25 195
	Transfer to policyholder liabilities under investment contracts with DPF	**285**	(855)
	Increase/(decrease) in retrospective liabilities	**260**	(1 152)
	Unwind of discount rate	**(2)**	(3)
	Expected release of margins	**(116)**	(181)
	Expected cash flows	**(131)**	(114)
	Change in economic assumptions	**(1)**	(5)
	Change in non-economic assumptions	**21**	(36)
	New business	**339**	644
	Experience variances	**(85)**	(8)
	Other	**(73)**	–
	Exchange differences	**–**	(2)
	Balance at end	**24 550**	24 338
	Open-ended	**19 923**	19 308
	Current	**727**	749
	Non-current	**3 900**	4 281
		24 550	24 338

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	2018 Rm	2017 Rm
9 Investment contracts *continued*		
Movement in investment contracts designated at fair value through income		
9.2 Investment contracts designated at fair value through income		
9.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	**224 801**	222 419
Sale of business	**–**	(1 359)
Contract holder movements	**13 855**	3 873
Deposits received	**33 327**	32 516
Contract benefit payments	**(34 665)**	(32 794)
Fees on investment contracts	**(2 135)**	(2 281)
Fair value adjustment to policyholder liabilities under investment contracts	**17 352**	6 405
Changes in share capital, dividends and other items relating to cell captives	**(24)**	27
Other	**30**	–
Exchange differences	**68**	(132)
Balance at end	**238 754**	224 801
9.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	**8 633**	10 371
Contract holder movements	**289**	(1 376)
Deposits received	**2 032**	1 300
Contract benefit payments	**(1 524)**	(1 646)
Fees on investment contracts	**(83)**	(99)
Fair value adjustment to policyholder liabilities under investment contracts	**203**	245
Cell captive income	**(276)**	450
Changes in share capital, dividends and other items relating to cell captives	**(63)**	(1 626)
Exchange differences	**185**	(362)
Balance at end	**9 107**	8 633
Open-ended	**128 593**	121 652
Current	**7 311**	4 639
Non-current	**111 957**	107 143
	247 861	233 434

The instruments in note 9.2 would have been classified as payables under IAS 39 had they not been designated at fair value through income.

For the IFRS 7 disclosures relating to investment contracts, refer to note 11.4.

Refer to note 10 for the assumptions and estimates used.

10 Contract holder liabilities – assumptions and estimates

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the FSV method as described in the actuarial guidance note SAP 104 of ASSA – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies in Annexure D para 10.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by SAP 104.
- Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty or for the prudent release of profit.

The liabilities at 30 June 2018 would have been R12 892 million (2017: R12 407 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

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

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2017 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2017 for MMIGL retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2011 to 2016 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2017. 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 2017. 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 2017. 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 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 2017 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 2017.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the group's own experience.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the 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 group's own experience.

10 Contract holder liabilities – assumptions and estimates *continued*

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended November 2017 for Metropolitan Retail business and December 2017 for Momentum Retail business.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended February 2018 for Metropolitan Retail business and December 2017 for Momentum Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

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 2019 financial year and allows for escalation at the assumed expense inflation rate.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns and inflation

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate +3.5% (2017: +3.5%)
  - Property rate: gilt rate +1.0% (2017: +1.0%)
  - Corporate bonds: gilt rate +0.5% (2017: +0.5%)
  - Cash rate: gilt rate -1.0% (2017: -1.0%)
- An inflation rate of 6% p.a. for ZAR-denominated business was used to project future renewal expenses over the planning horizon (three years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is assumed in respect of retail businesses within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2018	2017
RDR	**11.8%**	11.7%
Gilt rate – risk-free investment return	**9.5%**	9.4%
Assumed investment return for individual smoothed bonus business	**11.7%**	11.6%
Renewal expense inflation rate	**6.5%**	6.8%

10 Contract holder liabilities – assumptions and estimates *continued*

Future bonuses

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

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2018. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

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

Year	1	2	3	4	5	10	15	20	25	30	35	40
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**
2017	7.5	7.7	7.8	8.0	8.2	9.4	10.4	11.0	11.2	11.3	11.2	11.1

10 Contract holder liabilities – assumptions and estimates *continued*

Investment guarantees (APN 110) *continued*

The following instruments have been valued by the model:

Instrument	2018 Price (% of nominal)	2018 Volatility	2017 Price (% of nominal)	2017 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.5%**	**18.9%**	5.0%	18.4%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**1.2%**	**22.7%**	1.0%	22.3%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0388 (2017: 1.0476)	**7.0%**	**18.1%**	6.8%	17.4%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.7%**	**20.9%**	7.0%	22.6%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**10.9%**	**19.5%**	12.9%	21.4%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.3416 (2017: 1.3195)	**14.9%**	**18.9%**	16.4%	20.9%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**1.2%**	**25.3%**	1.5%	28.1%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**6.6%**	**24.5%**	6.9%	27.6%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 4.5263 (2017: 5.003)	**25.2%**	**23.8%**	29.1%	27.8%
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	**4.7%**	**12.4%**	5.7%	13.2%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.3%**	**N/A**	0.3%	N/A

Tax

- Future tax on investment returns is allowed for, according to tax regulations applicable from 1 July 2016 (explicitly allowing for the election of the transfer of existing business to the new Risk Policy Fund which became effective on 1 July 2016), by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

Notes to the financial statements continued

For the year ended 30 June 2018

10 Contract holder liabilities – assumptions and estimates *continued*

Basis and other changes

Assumptions and methodologies used in the FSV basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur. An exception to this is the impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business, which is transferred to investment stabilisation liabilities.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2018 by R571 million (2017: R395 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – positive R605 million (2017: positive R14 million).
  - Experience basis changes – negative R1 174 million (2017: negative R401 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – negative R2 million (2017: negative R8 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.

Sensitivity analysis

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

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

2018	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	61 618	60 283	60 741	62 084	58 970	62 513
Annuities (retail and employee benefits)	42 501	42 327	42 360	42 500	43 061	44 577
Employee benefits business (excluding annuities)	2 652	2 634	2 651	2 652	2 644	2 699
Investment with DPF business	24 550	24 534	24 541	24 547	24 543	24 772
Investment business	238 640	238 614	238 627	238 644	238 651	240 740
Subtotal	369 961	368 392	368 920	370 427	367 869	375 301
Cell captive and short-term business	20 381					
Total	390 342	368 392	368 920	370 427	367 869	375 301

10 Contract holder liabilities – assumptions and estimates *continued*

Sensitivity analysis *continued*

2017	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	58 538	57 419	57 609	58 978	56 325	59 274
Annuities (retail and employee benefits)	41 694	41 536	41 560	41 692	42 142	43 581
Employee benefits business (excluding annuities)	3 995	3 995	3 995	3 995	3 995	4 013
Investment with DPF business	24 275	24 249	24 252	24 261	24 247	24 473
Investment business	224 224	224 165	224 179	224 194	224 156	226 212
Subtotal	352 726	351 364	351 595	353 120	350 865	357 553
Cell captive and short-term business	19 288					
Total	372 014	351 364	351 595	353 120	350 865	357 553

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 group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMI's published EV report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

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

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2017: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R131 million (2017: R123 million) in the before-tax earnings of the group.

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

Notes to the financial statements continued

For the year ended 30 June 2018

ACC POLICY
Annex D11 and 22

11 Financial liabilities

The group classifies its financial liabilities into the following categories:

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

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

		2018 Rm	2017 Rm
	The group's financial liabilities are summarised below:		
11.1	**Financial liabilities designated at fair value through income**	**38 217**	37 331
	Derivative financial liabilities (refer to note 6.3)	**2 255**	1 827
11.2	**Financial liabilities at amortised cost**	**2 420**	1 229
11.3	**Other payables (excluding deferred revenue liability and premiums paid in advance)**	**12 822**	12 665
		55 714	53 052
11.1	**Financial liabilities designated at fair value through income**		
	Collective investment scheme liabilities	**28 441**	24 961
	Subordinated call notes	**4 374**	3 602
	Carry positions	**4 272**	7 676
	Preference shares	**1 020**	1 018
	Other	**110**	74
		38 217	37 331
	Current	**33 620**	32 748
	Non-current	**4 597**	4 583
		38 217	37 331

- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the FSCA (previously FSB) granted approval for MMIGL to raise debt issuances. MMIGL has sufficient cash to cover the debt. Refer to note 35 for more detail. *(cash flow interest rate risk)*
- Carry positions (secured) – this relates to a carry position reported by the group that represents a sale and repurchase of assets in specific group annuity portfolios. These carry positions are secured by government stock with a value of R4 273 million (2017: R7 470 million). Offsetting has not been applied. *(fair value interest rate risk)*
- Preference shares – on 26 June 2014, MMISI issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd. The declaration of preference dividends was calculated at 77% of JIBAR plus 175 basis points with an original redemption date of 27 June 2017. The maturity of the preference shares was extended in the prior year to 28 June 2020 on new terms being preference dividends calculated at 72% of JIBAR plus 180 basis points. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date. *(cash flow interest rate risk)*

11 Financial liabilities *continued*

11.1 Financial liabilities designated at fair value through income *continued*

- Other – non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to EV. In terms of IFRS, the group has recognised a financial liability of R71 million (2017: R58 million), being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results. *(no interest rate risk)*
- These instruments would have been disclosed as payable under IAS 39 had they not been designated at fair value through income.

	2018 Rm	2017 Rm
11.2 Financial liabilities at amortised cost		
Borrowings		
Cumulative redeemable convertible preference shares	**254**	261
Property development loans	**2 053**	867
Other	**113**	101
	2 420	1 229
Current	**1 333**	661
Non-current	**1 087**	568
	2 420	1 229

11.2.1 Cumulative redeemable convertible preference shares

MMI Holdings Ltd, had 28 813 618 A3 cumulative convertible redeemable preference shares in issue (to KTH, the group's strategic BEE partner) at the beginning of the year. Dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redemption date of 29 June 2019 (after extending it under the same terms by 18 months in the current year). On 2 October 2017, 1 million preference shares were converted into ordinary shares. In the prior year on 3 October 2016 and 3 April 2017, 1 million preference shares were converted into ordinary shares. The shares were originally issued at a price of R10.18 per share. Dividends are payable on the remaining preference shares at 132 cents per annum. The extension was treated as a renegotiation of the original contract. The liability has therefore been adjusted by the present value of the additional cash flow resulting from the extension. *(no interest rate risk)*

The equity component of the preference shares is included in note 16.6.

11.2.2 Property development loans

Included in property development loans are:

- A R486 million (2017: R487 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at 11%. The loan is secured by the underlying property. *(fair value interest rate risk)*
- A R194 million (2017: R183 million) loan from Standard Bank Ltd in order to develop property held by a subsidiary, MMI Umhlanga (Pty) Ltd. Interest on the loan is levied at JIBAR plus 1.90% (2017: JIBAR plus 2.30%). The loan is secured by the underlying property. *(cash flow interest rate risk)*
- A R1 311 million loan from Standard Bank Ltd in order to develop property held by a subsidiary, 129 Rivonia Road (Pty) Ltd. Interest on the loan is levied at three-month JIBAR plus 2.10%. The loan is secured by the underlying property. *(cash flow interest rate risk)*

Notes to the financial statements continued

For the year ended 30 June 2018

	2018 Rm	2017 Rm
11 Financial liabilities *continued*		
11.3 Other payables		
Payables arising from insurance contracts and investment contracts with DPF	5 762	5 277
Claims in process of settlement		
Insurance contracts	3 417	3 533
Investment contracts with DPF	1 103	860
Due to reinsurers	1 242	884
Payables arising from investment contracts	981	668
Financial instruments	6 079	6 720
Unsettled trades	606	852
Commission creditors	941	939
Health saver liability	266	234
Other payables	4 266	4 695
Total included in financial liabilities	12 822	12 665
Deferred revenue liability	481	482
Premiums paid in advance	1 001	981
Total other payables	14 304	14 128
Current	13 050	13 071
Non-current	1 254	1 057
	14 304	14 128
Reconciliation of deferred revenue liability		
Balance at beginning of year	482	449
Deferred income relating to new business	165	130
Amount recognised in income statement (refer to note 18)	(166)	(97)
Balance at end of year	481	482

11.4 Financial liabilities hierarchy

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

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

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	1 298	246 538	25	247 861
Financial liabilities designated at fair value through income	28 347	9 674	196	38 217
Collective investment scheme liabilities	28 347	8	86	28 441
Subordinated call notes	–	4 374	–	4 374
Carry positions	–	4 272	–	4 272
Preference shares	–	1 020	–	1 020
Other borrowings	–	–	110	110
Derivative financial liabilities – held for trading	131	2 124	–	2 255
	29 776	258 336	221	288 333

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
11 Financial liabilities *continued*				
11.4 Financial liabilities hierarchy *continued*				
Investment contracts designated at fair value through income	1 064	232 335	35	233 434
Financial liabilities designated at fair value through income	24 744	12 307	280	37 331
Collective investment scheme liabilities	24 744	11	206	24 961
Subordinated call notes	–	3 602	–	3 602
Carry positions	–	7 676	–	7 676
Preference shares	–	1 018	–	1 018
Other borrowings	–	–	74	74
Derivative financial liabilities – held for trading	46	1 781	–	1 827
	25 854	246 423	315	272 592

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

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

2018	Investment contracts Rm	Financial liabilities designated at fair value through income: Collective investment scheme liabilities Rm	Financial liabilities designated at fair value through income: Other borrowings Rm	Total Rm
Opening balance	**35**	**206**	**74**	**315**
Business combinations (refer to note 29)	**–**	**–**	**26**	**26**
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	**–**	**3**	**–**	**3**
Unrealised losses/(gains)	**2**	**(83)**	**10**	**(71)**
Issues	**–**	**2**	**–**	**2**
Sales	**–**	**(42)**	**–**	**(42)**
Contract holder movements				
Benefits paid	**(12)**	**–**	**–**	**(12)**
Closing balance	**25**	**86**	**110**	**221**

Notes to the financial statements continued

For the year ended 30 June 2018

11 Financial liabilities *continued*

11.4 Financial liabilities hierarchy *continued*

2017	Investment contracts Rm	Financial liabilities designated at fair value through income: Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
Opening balance	76	234	118	428
Total (gains)/losses in net realised and fair value gains in the income statement				
Realised losses	4	–	–	4
Unrealised gains	(13)	(23)	(38)	(74)
Total losses in other comprehensive income	–	19	–	19
Issues	–	7	–	7
Sales	–	(6)	–	(6)
Settlements	–	(25)	(6)	(31)
Contract holder movements				
Benefits paid	(36)	–	–	(36)
Investment return	4	–	–	4
Closing balance	35	206	74	315

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R15 million and R15 million (2017: R28 million and R28 million), respectively.

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

	2018 Carrying value Rm	2018 Fair value Rm	2017 Carrying value Rm	2017 Fair value Rm
Investment contracts with DPF	**24 550**	**24 550**	24 338	24 338
Amortised cost	**2 420**	**2 680**	1 229	1 551
Cumulative redeemable preference shares	**254**	**514**	261	583
Other	**2 166**	**2 166**	968	968
Other payables	**12 822**	**12 823**	12 665	12 665
Payables arising from investment contracts	**981**	**982**	668	668
Other payables	**11 841**	**11 841**	11 997	11 997
	39 792	**40 053**	38 232	38 554

11 Financial liabilities *continued*

11.4 Financial liabilities hierarchy *continued*

Calculation of fair value

- The value of investment contracts with 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.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2018, the expected cash flows were discounted at a current market rate of 12% (2017: 12%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder (level 2).
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

ACC POLICY
Annex D10

	2018 Rm	2017 Rm
12 Reinsurance contract liabilities		
Balance at beginning	**1 368**	973
Business combinations (refer to note 29)	**11**	–
Change in liabilities under reinsurance agreements	**290**	389
New financial reinsurance agreements	**588**	581
Repayments	**(407)**	(219)
Change in estimates	**109**	27
Reinsurance ceded	**16**	6
Balance at end	**1 685**	1 368
Current	**280**	220
Non-current	**1 405**	1 148
	1 685	1 368

The reinsurance liability relates to a financial reinsurance agreement with registered reinsurers, whereby the reinsurer provided upfront funding to cells within Guardrisk and Momentum Ability. The cells then repay this funding over an agreed term and the liability associated with this repayment is disclosed above.

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

ACC POLICY
Annex D12

		2018 Rm	2017 Rm
13	**Deferred income tax**		
	Deferred tax asset	**290**	249
	Deferred tax liability	**(2 874)**	(3 198)
		(2 584)	(2 949)
	Deferred tax is made up as follows:		
	Accruals and provisions	**86**	89
	Accelerated wear and tear	**(98)**	(81)
	Revaluations	**(634)**	(859)
	Deferred tax on intangible assets as a result of business combinations	**(1 918)**	(2 112)
	Deferred revenue liability	**157**	159
	Difference between published and statutory policyholder liabilities	**960**	974
	Tax losses	**622**	373
	Negative rand reserves	**(991)**	(790)
	Deferred acquisition costs	**(597)**	(618)
	Other	**(171)**	(84)
		(2 584)	(2 949)
	Current	**278**	(101)
	Non-current	**(2 862)**	(2 848)
		(2 584)	(2 949)
	Movement in deferred tax		
	Balance at beginning	**(2 949)**	(3 533)
	Charge to the income statement	**310**	599
	Accruals and provisions	**(3)**	(74)
	Accelerated wear and tear	**(17)**	(16)
	Revaluations	**148**	426
	Deferred tax on intangible assets as a result of business combinations	**220**	244
	Deferred revenue liability	**(2)**	4
	Difference between published and statutory policyholder liabilities	**(14)**	258
	Tax losses	**249**	167
	Negative rand reserves	**(201)**	(415)
	Deferred acquisition costs	**21**	(4)
	Other	**(91)**	9
	Charge to other comprehensive income (refer to note 16)	**(1)**	(32)
	Other	**56**	17
	Balance at end	**(2 584)**	(2 949)
	Deferred tax asset on available tax losses and credits not provided for	**483**	402

13 Deferred income tax *continued*

Creation of deferred tax assets and recognition of deferred tax liabilities

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

Included in the deferred tax asset of R622 million (2017: R373 million) raised due to tax losses, is a deferred tax asset of R151 million (2017: R134 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R823 million (2017: R888 million) relating to the unremitted earnings of international subsidiaries as the group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements

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

Notes to the financial statements continued

For the year ended 30 June 2018

ACC POLICY
Annex D18

	2018 Rm	2017 Rm
14 Employee benefit obligations		
14.1 Employee benefit obligations		
14.1.1 Post-retirement medical benefits	**169**	234
14.1.2 Cash-settled arrangements	**333**	425
Other employee benefit obligations	**651**	675
Total employee benefit obligations	**1 153**	1 334
Current	**929**	545
Non-current	**224**	789
	1 153	1 334

Employee benefit expenses are included in the income statement. Refer to note 23.

	2018 Rm	2017 Rm
14.1.1 Post-retirement medical benefits		
Balance at beginning – unfunded	**234**	328
Current service costs	**2**	2
Past service cost	**8**	(21)
Interest expense	**16**	30
Actuarial gains – other comprehensive income	**(20)**	(21)
Employer contributions	**–**	(1)
Settlements	**(59)**	–
Benefits paid and transferred	**(12)**	(83)
Balance at end – unfunded	**169**	234
Current	**13**	25
Non-current	**156**	209
	169	234

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.

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.1 Post-retirement medical benefits *continued*

Valuation methodology *continued*

The key valuation assumptions are:

Assumptions	Base assumption	Change in significant assumption	Change in value of liability: Decrease in significant assumption Rm	Change in value of liability: Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	8% (2017: 9%)	3%	(16)	20
Valuation rate of interest/discount rate	9% (2017: 9%)			
Administration fee inflation	7% (2017: 8%)			
Normal retirement age	60 – 62 years			
Mortality				
Pre-retirement	SA 72 – 77 ultimate, with female rates equal to 70% of male rates			
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years			

The weighted average duration of the post-retirement medical benefits obligation is 11.3 years (2017: 11.1 years).

	2018 Rm	2017 Rm
14.1.2 Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	425	500
Additional provisions	120	225
Benefits paid	(213)	(298)
Exchange differences	1	(2)
Balance at end	333	425
Current	155	224
Non-current	178	201
	333	425

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements continued

Momentum share schemes

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

Momentum Sales Scheme (MSS)

MSS was set up specifically for the benefit of the sales staff. 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.

MMI share schemes

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

MMI Long-term Incentive Plan (MMI LTIP)

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

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

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

Momentum Sales Phantom Shares (MSPS)

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

MMI Outperformance Plan (MMI OP)

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

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

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements continued

***Momentum share schemes** continued*

MSS	2018 '000	2017 '000
Options in force at 1 July	**1 452**	4 525
Granted at prices ranging from (cents)	**1 699 – 2 256**	1 699 – 2 256
Options exercised/released during year	**(3)**	(2 988)
Market value of range at date of exercise/release (cents)	**1 976 – 2 000**	2 234 – 2 495
Options cancelled/lapsed during year	**(1 449)**	(85)
Granted at prices ranging from (cents)	**1 976-2 000**	1 666 – 2 256
Options in force at 30 June	**–**	1 452
Granted at prices ranging from (cents)	**–**	1 666 – 2 256
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2018	**–**	1 452
Total outstanding shares	**–**	1 452

Valuation assumptions of MSS:	2018	2017
Share price	**N/A**	R19.96
Volatility	**N/A**	13.03% –14.23%
Dividend yield	**N/A**	6.6%
Forfeiture rate	**N/A**	5.0%
Risk-free yield curve	**N/A**	7.14% – 7.16%

	MMI LTIP		MSPS	MMI OP	
	Retention units '000	Performance units '000	'000	Retention units '000	Performance units '000
Units in force at 1 July 2016	18 313	19 450	5 230	200	10 688
Units granted during year	9 592	11 304	1 690	14	693
Units exercised/released during year	(6 231)	(6 025)	(519)	–	–
Units cancelled/lapsed during year	(2 113)	(2 144)	(262)	–	(1 218)
Units in force at 1 July 2017	**19 561**	**22 585**	**6 139**	**214**	**10 163**
Units granted during year	**14 897**	**19 652**	**1 172**	**11**	**535**
Units exercised/released during year	**(5 690)**	**(5 208)**	**(1 204)**	**–**	**–**
Units cancelled/lapsed during year	**(3 005)**	**(5 165)**	**(558)**	**–**	**(3 600)**
Units in force at 30 June 2018	**25 763**	**31 864**	**5 549**	**225**	**7 098**

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements continued

Market value of range at date of exercise/release

For MMI LTIP, the units were exercised/released at market values between 1 847 cents and 2 235 cents (2017: 2 216 cents and 2 506 cents). For MSPS, the units were exercised/released at a market value between 1 876 cents and 2 262 cents (2017: 2 216 cents and 2 495 cents).

Units outstanding (by expiry date) for the MMI LTIP, MSPS and MMI OP at 30 June 2018 are as follows:

	MMI LTIP		MSPS	MMI OP	
2018	**Retention units '000**	**Performance units '000**	**'000**	**Retention units '000**	**Performance units '000**
Financial year 2019	5 724	6 348	1 501	135	4 259
Financial year 2020	7 065	8 473	1 536	90	2 839
Financial year 2021	12 974	15 797	1 304	–	–
Financial year 2022	–	1 246	844	–	–
Financial year 2023	–	–	364	–	–
Total outstanding shares	**25 763**	**31 864**	**5 549**	**225**	**7 098**

Refer to Annexure F for the valuation assumptions relating to these schemes.

15 Share capital and share premium

ACC POLICY
Annex D20

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

In the current year, the group has started distributing capital to shareholders by means of repurchasing shares, in lieu of paying a dividend.

Authorised share capital of MMI Holdings Ltd

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

Authorised share capital of MMIGL

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

15 Share capital and share premium *continued*

Issued share capital

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

	2018 Rm	2017 Rm
Balance at beginning	**13 746**	13 856
Treasury shares held on behalf of contract holders	**14**	(124)
Conversion of preference shares net of share issue costs	**7**	14
	13 767	13 746
Share capital	**9**	9
Share premium	**13 758**	13 737
	13 767	13 746

MMI Holdings Ltd ordinary shares	2018 Million	2017 Million
Total issued MMI Holdings Ltd shares at 30 June	**1 575**	1 574
Conversion of preference shares	**1**	1
Share buy back	**(47)**	–
Total ordinary shares in issue	**1 529**	1 575
Treasury shares held on behalf of contract holders	**(17)**	(18)
Basic number of shares in issue	**1 512**	1 557
Convertible redeemable preference shares	**28**	29
Diluted number of shares in issue	**1 540**	1 586
Treasury shares held on behalf of contract holders	**17**	18
Diluted number of shares in issue for core headline earnings purposes	**1 557**	1 604

MMIGL had 190 million ordinary shares in issue at 30 June 2018 (2017: 190 million).

Preference shares

MMI Holdings Ltd had 29 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 16 and the debt component is disclosed under note 11.2. On 2 October 2017 752 720 A3 preference shares, were converted to ordinary shares. Refer to note 11.2 for more details.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares are held by MMI Holdings Ltd and have therefore been eliminated at a group level.

Share buy-back programme

The group will continue to distribute capital to shareholders by means of repurchasing shares, in lieu of paying a dividend. Up to R2 billion will be used to buy back shares. At 30 June 2018, 47 million shares (R971 million excluding transaction costs) have been bought back at an average price of R20.66. The shares were cancelled and reverted back to authorised but unissued status.

Notes to the financial statements continued

For the year ended 30 June 2018

		2018 Rm	2017 Rm
16	**Other components of equity**		
16.1	**Land and building revaluation reserve**	732	807
16.2	**Foreign currency translation reserve**	(97)	(98)
16.3	**Revaluation of available-for-sale investments**	–	7
16.4	**Non-distributable reserve**	57	54
16.5	**Employee benefit revaluation reserve**	102	88
16.6	**Fair value adjustment for preference shares issued by MMI Holdings Ltd**	940	940
16.7	**Equity-settled share-based payment arrangements**	33	(10)
		1 767	1 788
	Movements in other reserves		
16.1	**Land and building revaluation reserve**		
	Balance at beginning	807	742
	Earnings directly attributable to other components of equity	130	110
	Revaluation	131	142
	Deferred tax on revaluation	(1)	(32)
	Transfer to retained earnings	(205)	(45)
	Balance at end	732	807
16.2	**Foreign currency translation reserve**		
	Balance at beginning	(98)	122
	Currency translation differences	1	(220)
	Balance at end	(97)	(98)
16.3	**Revaluation of available-for-sale investments**		
	Balance at beginning	7	11
	Fair value gain/(loss) – gross	4	(4)
	Gains transferred to net realised gains	(11)	–
	Balance at end	–	7
16.4	**Non-distributable reserve**		
	Balance at beginning	54	50
	Transfer from retained earnings	9	5
	Other	(6)	(1)
	Balance at end	57	54
16.5	**Employee benefit revaluation reserve**		
	Balance at beginning	88	77
	Remeasurement of post-employment benefit obligations	14	11
	Balance at end	102	88

ACC POLICY Annex D5

ACC POLICY Annex D3

ACC POLICY Annex D7

ACC POLICY Annex D18

	2018 Rm	2017 Rm
16 Other components of equity *continued*		
16.6 Fair value adjustment for preference shares issued by MMI Holdings Ltd		
Equity component of preference shares issued	**940**	940

This represents the write-up of the carrying value of the preference shares issued by MMI Holdings Ltd to KTH to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.

	2018 Rm	2017 Rm
16.7 Equity-settled share-based payment arrangements		
BEE share-based payment		
Balance at beginning	**(10)**	13
Employee share schemes – value of services provided	**43**	(23)
Balance at end	**33**	(10)

In the current year, the group sold shares in MHC and Providence. The shares were sold at a discount, which resulted in a R39 million IFRS 2 charge. In the prior year, the group acquired shares in MHC previously held by KTH. These shares were previously considered an equity-settled award. Under IFRS 2 any payment made to a counterparty on cancellation or settlement of a grant of equity instruments is accounted for as a repurchase of an equity instrument and is therefore deducted from equity. The payment did not exceed the fair value of the equity instrument and therefore no expense was recognised.

17 Net insurance premiums

ACC POLICY
Annex D10

	2018 Rm	2017 Rm
Premiums received	**42 788**	39 403
Long-term insurance contracts	**29 519**	27 424
Health premiums	**1 082**	1 139
Investment contracts with DPF	**2 189**	2 179
Short-term insurance	**9 998**	8 661
Premiums received ceded to reinsurers	**(12 895)**	(11 212)
	29 893	28 191

Included in the above is R16 179 million (2017: R13 807 million) premiums and R10 357 million (2017: R9 861 million) reinsurance relating to cell captives.

Notes to the financial statements continued

For the year ended 30 June 2018

ACC POLICY
Annex D23

		2018 Rm	2017 Rm
18	**Fee income**		
	Contract administration	**2 384**	2 477
	Investment contract administration	**2 218**	2 380
	Release of deferred front-end fees	**166**	97
	Trust and fiduciary services	**1 506**	1 608
	Asset management	**587**	581
	Asset administration	**507**	640
	Retirement fund administration	**412**	387
	Health administration	**1 780**	1 764
	Other fee income	**1 866**	1 562
	Administration fees received	**207**	191
	Multiply fee income	**407**	425
	Cell captive fee income	**863**	526
	Other	**389**	420
		7 536	7 411

ACC POLICY
Annex D23

		2018 Rm	2017 Rm
19	**Investment income**		
	Designated at fair value through income		
	Dividend income – listed	**3 581**	3 380
	Dividend income – unlisted	**1 000**	630
	Interest income	**14 337**	13 705
	Designated at fair value through income	**12 582**	11 834
	Held-to-maturity	**69**	92
	Loans and receivables	**276**	260
	Cash and cash equivalents	**1 410**	1 519
	Rental income	**1 140**	1 149
	Investment properties	**1 128**	1 134
	Owner-occupied properties	**12**	15
	Other income	**26**	94
		20 084	18 958

ACC POLICY
Annex D6, 7 and 11

		2018 Rm	2017 Rm
20	**Net realised and fair value gains**		
	Financial assets	**17 430**	(138)
	Designated at fair value through income	**17 756**	(69)
	Derivative financial instruments – losses	**(373)**	(35)
	Available-for-sale – realised gains	**13**	–
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	**34**	(34)
	Financial liabilities		
	Designated at fair value through income	**(25)**	–
	Investment property	**332**	206
	Valuation gains	**337**	230
	Change in accelerated rental income	**(5)**	(24)
	Other investments	**49**	115
		17 786	183

	ACC POLICY Annex D10	2018 Rm	2017 Rm
21	**Net insurance benefits and claims**		
	Long-term insurance contracts	**23 848**	20 602
	Death and disability claims	**10 517**	10 217
	Maturity claims	**3 902**	3 839
	Annuities	**3 855**	3 523
	Surrenders	**2 856**	2 793
	Terminations, disinvestments and withdrawal benefits	**2 718**	230
	Health and capitation benefits incurred	**942**	957
	Short-term insurance benefits incurred	**5 275**	5 080
	Short-term insurance change in provision for outstanding claims	**200**	(3)
	Investment contracts with DPF	**3 624**	3 873
	Death and disability claims	**95**	82
	Maturity claims	**935**	936
	Annuities	**154**	320
	Surrenders	**534**	418
	Terminations, disinvestments and withdrawal benefits	**1 906**	2 117
		33 889	30 509
	Amounts recovered from reinsurers	**(6 657)**	(6 068)
		27 232	24 441

Included in the above is R6 936 million (2017: R7 047 million) claims and R4 522 million (2017: R4 717 million) reinsurance relating to cell captives.

	ACC POLICY Annex D4, 5 and 7	2018 Rm	2017 Rm
22	**Depreciation, amortisation and impairment expenses**		
	Depreciation	**227**	233
	Owner-occupied properties (refer to note 3)	**75**	77
	Equipment	**152**	156
	Amortisation (refer to note 2)	**892**	917
	Value of in-force business acquired	**291**	317
	Customer relationships	**374**	368
	Brands	**60**	62
	Broker network	**33**	22
	Computer software	**134**	148
	Impairment of intangible assets (refer to note 2)	**97**	417
	Goodwill	**31**	100
	Customer relationships	**–**	84
	Brands	**–**	18
	Computer software	**66**	215
	Impairment of owner-occupied property (refer to note 3)	**–**	28
	Impairment of financial assets – Loans and receivables	**10**	70
		1 226	1 665

Notes to the financial statements continued

For the year ended 30 June 2018

ACC POLICY Annex D18

		2018 Rm	2017 Rm
23	**Employee benefit expenses**		
	Salaries	**4 620**	4 392
	Contributions to medical aid funds	**184**	180
	Defined benefit retirement fund	**7**	3
	Defined contribution retirement fund	**306**	275
	Post-retirement medical benefits	**24**	2
	Retirement fund assets	**(32)**	(45)
	Share-based payment expenses – Cash-settled arrangements (refer to note 14.1.2)	**120**	225
	Current service costs – International subsidiaries' share schemes	**54**	57
	Training costs	**89**	76
	Other	**85**	84
		5 457	5 249

For detail of directors' and prescribed officers' emoluments, refer to the remuneration report.

ACC POLICY Annex D10

		2018 Rm	2017 Rm
24	**Sales remuneration**		
	Commission incurred for the acquisition of insurance contracts	**4 073**	3 818
	Commission incurred for the acquisition of investment contracts	**1 082**	1 081
	Amortisation of deferred acquisition costs	**661**	387
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	**(20)**	(3)
		5 796	5 283

ACC POLICY Annex D24

		2018 Rm	2017 Rm
25	**Other expenses**		
	Administration fees paid – Binder and outsourcing fees	**13**	44
	Asset management fees	**3 003**	2 881
	Auditors' remuneration	**119**	86
	Audit fees	**109**	79
	Fees for other services	**10**	7
	Bad debts written off	**35**	34
	Bank charges	**101**	96
	Consulting fees	**761**	711
	Direct property operating expenses on investment property	**491**	451
	Information technology expenses	**559**	560
	Marketing costs	**381**	389
	Multiply benefit payments	**361**	410
	Office costs	**621**	668
	Operating lease charges	**94**	94
	Other indirect taxes	**328**	268
	Policy services	**48**	49
	Travel expenses	**205**	203
	Other expenses	**659**	423
		7 779	7 367

	ACC POLICY Annex D24	2018 Rm	2017 Rm
26	**Finance costs**		
	Interest expense on financial liabilities		
	Redeemable preference shares	**110**	112
	Unsecured subordinated call notes	**397**	351
	Cost of carry positions	**363**	408
	Other	**178**	152
		1 048	1 023
27	**Income tax expense** (ACC POLICY Annex D13)		
	Income tax expenses/(credits)		
	Current taxation	**3 349**	3 536
	Shareholder tax		
	South African normal tax – current year	**1 040**	1 341
	South African normal tax – prior year	**(6)**	206
	Foreign countries – normal tax	**65**	82
	Foreign withholding tax	**129**	76
	Contract holder tax		
	Tax on contract holder funds – current year	**962**	724
	Tax attributable to cell captive owners	**1 159**	1 107
	Deferred tax	**(310)**	(599)
	Shareholder tax		
	South African normal tax – current year	**(200)**	(319)
	South African normal tax – prior year	**2**	–
	Foreign countries – normal tax	**3**	–
	Contract holder tax		
	Tax on contract holder funds – current year	**(119)**	(291)
	Tax attributable to cell captive owners	**4**	11
		3 039	2 937

Tax rate reconciliation	2018 %	2017 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Capital gains tax	**0.2**	1.8
Prior year adjustments	**1.9**	4.5
Taxation on contract holder funds	**26.3**	14.9
Foreign tax differential	**(0.7)**	(0.6)
Non-taxable income[1]	**(13.1)**	(13.8)
Non-deductible expenses[2]	**9.7**	4.6
Tax losses for which no deferred tax asset was recognised	**2.8**	9.9
Cell captive tax – to be recovered from cell owners	**14.7**	15.5
Other	**(1.7)**	0.2
Effective rate	**68.1**	65.0

[1] Non-taxable income comprises dividend income and other permanent differences on capital items which are non-taxable.
[2] Non-deductible expenses comprise expenses for which no tax deduction is allowed as these are not in the production of income.

		2018 Rm	2017 Rm
28	**Cash flow from operating activities**		
28.1	**Cash utilised in operations**		
	Profit before tax	**4 461**	4 518
	Adjusted for		
	Items disclosed elsewhere		
	Dividends received	**(4 581)**	(4 010)
	Interest received	**(14 336)**	(13 705)
	Finance costs	**1 048**	1 023
	Non-cash-flow items		
	Share of losses of associates	**213**	121
	Net realised and fair value gains	**(17 786)**	(183)
	Fair value adjustment to policy liabilities	**17 555**	6 747
	Fair value adjustment to collective investment scheme liabilities	**2 738**	688
	Depreciation and amortisation expenses	**1 119**	1 151
	Impairment charges and bad debt written off	**142**	569
	Deferred acquisition costs movement	**663**	387
	Share-based payments and other employee benefit expenses	**599**	705
	Provisions	**(3)**	17
	Reinsurance assets and liabilities	**1 794**	(2 267)
	Deferred revenue liability movements	**(162)**	(93)
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Net insurance and investment liabilities	**(1 554)**	(2 068)
	Intangible assets related to insurance and investment contracts	**(620)**	(396)
	Investment properties	**(687)**	(148)
	Properties under development	**(25)**	76
	Financial assets and liabilities	**(3 767)**	(5 546)
	Loans and receivables	**1 707**	129
	Insurance and other receivables	**(386)**	(144)
	Employee benefit assets and obligations	**(788)**	(816)
	Reinsurance assets and liabilities	**(12)**	706
	Other operating liabilities	**355**	(163)
	Cash utilised in operations	**(12 313)**	(12 702)
28.2	**Income tax paid**		
	Due at beginning	**(2 534)**	(3 028)
	Charged to income statement	**(3 039)**	(2 937)
	Charged directly to other comprehensive income	**(1)**	(32)
	Business combinations	**(32)**	–
	Due at end	**2 553**	2 534
		(3 053)	(3 463)
28.3	**Interest paid**		
	Redeemable preference shares	**(110)**	(113)
	Unsecured subordinated call notes	**(379)**	(351)
	Cost of carry positions	**(363)**	(408)
	Other	**(68)**	(119)
		(920)	(991)

	2018 Rm	2017 Rm
28 Cash flow from operating activities *continued*		
28.4 Liabilities arising from financing activities		
Due at beginning	**13 599**	13 064
Repayment of borrowings	**(7 968)**	(7 423)
Proceeds from borrowings	**5 693**	7 973
Subordinated call notes issued	**750**	–
Accrued interest	**1 004**	988
Interest paid	**(920)**	(991)
Fair value movement	**34**	2
Other	**(7)**	(14)
Due at end	**12 185**	13 599

29 Business combinations

Business combinations for the year ended 30 June 2018

During the current year, the group acquired a short-term insurer in Namibia and an underwriting manager to form part of the Guardrisk group. As a result of these acquisitions, certain intangible/tangible assets and liabilities were recognised as part of the purchase price allocation performed on acquisition date. These business combinations were not considered significant for the group as the consideration was, individually, not more than R100 million and therefore no further disclosures are provided.

Business combinations for the year ended 30 June 2017

There were no significant business combinations during the prior year. Goodwill and customer relationships to the value of R11 million each were recognised due to a small acquisition.

30 Related party transactions

30.1 Major shareholders and group companies

MMI Holdings Ltd is the ultimate holding company in the group. By virtue of its shareholding of 25.8% in MMI Holdings Ltd, RMI has significant influence over the group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile.

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

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

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

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

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

Notes to the financial statements continued

For the year ended 30 June 2018

30 Related party transactions *continued*

30.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the group, as well as to non-executive directors (in the form of fees). Transactions with directors are disclosed in the corporate governance report and in the remuneration report.

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

	2018 Rm	2017 Rm
Salaries and other short-term employee benefits	**31**	14
Post-employment benefits	**1**	1
Termination benefits	**7**	11
Share-based payments	**2**	27
Directors' fees	**16**	28
	57	81

The group executive directors are members of the staff pension schemes.

The executive directors participate in the group's long-term retention schemes, the details of which are in note 14.1.

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

	2018		2017	
	Insurance Rm	Investment Rm	Insurance Rm	Investment Rm
Fund value	**5**	**207**	4	213
Aggregate life and disability cover	**33**	**N/A**	85	N/A
Deposits/premiums for the year	**1**	**28**	1	33
Withdrawals/claims for the year	**–**	**(76)**	(2)	(83)

In aggregate, the group earned fees and charges totalling R2.2 million (2017: R0.7 million) on the insurance and investment products set out above.

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

The group's B-BBEE partner, KTH, has an interest of 7.3% (2017: 7.1%) in MMI Holdings Ltd. The group has entered into the following transactions with KTH:

- MMI Holdings Ltd issued preference shares to KTH as disclosed in note 11.2.1.
- KTH has certain strategic empowerment holdings in the group. Refer to the directors' report for more details.
- Dividends of R37.0 million (2017: R39.5 million) were paid to KTH on the A3 MMI Holdings Ltd preference shares.

30 Related party transactions *continued*

30.4 Contract administration

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

30.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 6.4).

30.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

R369 million of the ordinary dividends declared by MMI Holdings Ltd in September 2017 (R369 million of the ordinary dividends declared in September 2016) and R261 million of the ordinary dividends declared in March 2017 were attributable to RMI.

30.7 Post-employment benefit plans

Refer to note 14 for details of the group's employee benefit plans.

	2018 Rm	2017 Rm
31 Capital and lease commitments		
Capital commitments		
Authorised but not contracted	571	294
The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, sponsorships, promotions and new business opportunities, will be financed from internal sources. The group has also made capital commitments of R555 million for 2020 for the India, aYo and African Bank initiatives.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	24	25
Between 1 and 5 years	13	25
	37	50
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	321	452
Between 1 and 5 years	637	965
More than 5 years	283	404
	1 241	1 821

Notes to the financial statements continued

For the year ended 30 June 2018

32 Contingent liabilities

ACC POLICY
Annex D17

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

Uncertain tax position

A dispute exists in relation to whether Metropolitan Lesotho's life insurance business is exempt from income tax. Given that the matter is still subject to a tribunal hearing, the potential financial impact has not been disclosed.

33 Events after the reporting period

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

34 Financial risk management

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

Long-term insurance risk: Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or a change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary.

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

Liquidity risk: Liquidity risk is the risk that the group, although solvent, has inadequate cash resources to meet its financial obligations when due, or can only secure these resources at excessive cost. The group 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 financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value as a consequence of changes in market conditions or as a result of the performance of investments held. In certain instances these risks are passed on to policyholders, for example when financial instruments subject to market risk back contract holder liabilities.

34 Financial risk management *continued*

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

The 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 group.

35 Capital management

35.1 Capital management objectives

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

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

35.2 Capital management framework

The capital management framework rests on the following three pillars:

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

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

35.3 Overview of capital management developments

35.3.1 Capital held in the holding company

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

35 Capital management *continued*

35.3 Overview of capital management developments *continued*

35.3.2 Capital allocated to the operating subsidiaries

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

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

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk.

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

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

The amounts of capital held by the group's operating subsidiaries are regularly compared to their economic capital requirements and the intention is to manage the actual capital levels to be in line with the economic capital requirements.

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

35.3.3 Statutory capital requirement

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

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

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

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

35 Capital management *continued*

35.3 Overview of capital management developments *continued*

35.3.4 Regulatory capital developments

The Financial Sector Regulation Act of 2017 commenced on 1 April 2018 introducing the twin peaks model of regulating financial institutions. The twin peaks model will bring about the establishment of the PA, hosted within the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA). The prudential supervision of insurers will therefore, with effect from 1 April 2018, be performed within the PA. The new regulatory bodies will effectively replace the functions previously performed by the FSB.

The Insurance Act, 2017 (Act No. 18 of 2017) (Insurance Act), took effect on 1 July 2018. Insurance companies will still report their 30 June 2018 results on the old regulatory regime; however, subsequent reporting has to be made on the Solvency Assessment and Management (SAM) regulatory regime to the PA. MMI will report their first set of results on the SAM regulatory regime following the half-year ending 31 December 2018.

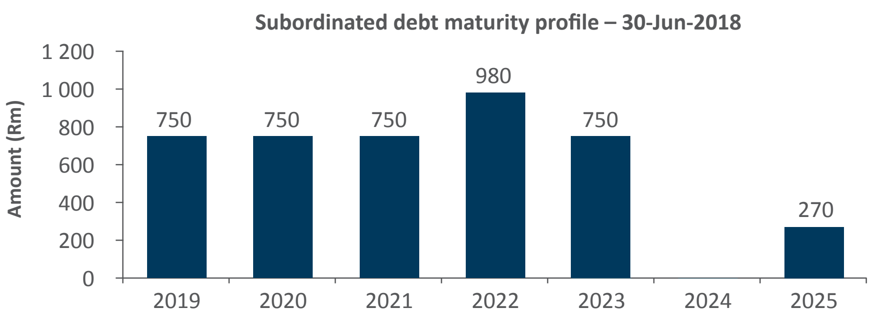
35.3.5 Issuance of subordinated debt

The table below shows a summary of the MMIGL subordinated, unsecured callable notes currently in issue at 30 June 2018:

MMI Group Ltd subordinated debt Instrument code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MMIG01	750	3-month JIBAR + 1.46%	5.0	Mar-14	Floating
MMIG02	750	10.07%	7.0	Mar-14	Fixed
MMIG03	750	3-month JIBAR + 2.30%	5.5	Dec-14	Floating
MMIG04	270	11.30%	10.0	Aug-15	Fixed
MMIG05	980	10.86%	7.0	Aug-15	Fixed
MMIG06	750	3-month JIBAR + 2.20%	6.0	Oct-17	Floating

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

The graph below shows the maturity profile of MMIGL's subordinated debt:



35 Capital management *continued*

35.4 Sources of capital utilised

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

MMIGL Regulatory capital	2018 Rm	2018 %	2017 Rm	2017 %
Tier 1	**10 049**	**70**	11 894	77
– core tier 1 (ie equity capital)	**9 549**	**67**	11 394	74
– non-redeemable preference shares	**500**	**3**	500	3
Tier 2: subordinated qualifying bonds	**4 374**	**30**	3 602	23
Qualifying statutory capital	**14 423**	**100**	15 496	100

35.5 Regulatory capital position

At 30 June 2018, MMIGL's CAR was covered 2.7 times (2017: 2.7 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMIGL Regulatory capital position	2018 Rm	2017 Rm
Statutory excess over liabilities	**14 423**	15 496
CAR	**5 405**	5 714
CAR cover (times)	**2.7**	2.7

MMIGL's statutory surplus decreased by R1 073 million (7%) while CAR decreased by R309 million (5%) over the 12 months ended 30 June 2018.

Statutory earnings of R1.3 billion and subordinated debt raised of R750 million were offset by dividends paid of R3.1 billion.

The R309 million reduction in CAR is mainly attributed to a combination of the following factors:

- Investment risk decreased as a result of the rebalancing of an interest rate hedge.
- Credit risk decreased as a result of improved modelling despite rating downgrades.
- Mortality and morbidity risk increased as a result of assumption and methodology changes on Retail risk business.

35.6 Economic capital

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

While transitioning into the SAM regulatory regime, MMI deems it prudent to keep a capital buffer. MMI also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, MMI believes that the level of the capital buffer, after capital distributions, will be sufficient to meet future strategic requirements of the group.

35 Capital management *continued*

35.7 Credit ratings

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

On 23 March 2018, Moody's confirmed the BBB- sovereign credit rating of South Africa with a stable outlook. Subsequently, Moody's confirmed MMIGL's Insurer Financial Strength (IFS) international scale rating of Baa2 (national rating of Aaa.za) and Guardrisk's IFS rating of Baa3 (national scale rating of Aaa.za) with a stable outlook. The table below summarises the latest national and global scale ratings of MMIGL and Guardrisk:

Entity	Type	Global scale	National scale	Outlook
MMI				
MMIGL	Insurer financial strength	Baa2	Aaa.za	Stable
MMIGL	Issuer rating	Baa3	Aaa.za	Stable
MMIGL subordinated debt	N/A	Ba1	Aa2.za	Stable
Guardrisk				
Guardrisk Insurance Company Ltd	Insurer financial strength	Baa3	Aaa.za	Stable
Guardrisk Life Ltd	Insurer financial strength	Baa3	Aaa.za	Stable
Guardrisk International Ltd PCC	Insurer financial strength	Baa3	N/A	Stable

On MMI, Moody's commented that "MMI Group Limited's (MMIGL) 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."

On Guardrisk, Moody's commented that "The Baa3 global scale Insurance Financial Strength (IFS) ratings assigned to entities in the Guardrisk group – as well as the Aaa.za national scale IFS ratings assigned to the South African entities – reflect (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong profitability. These strengths are partially offset by (i) its investment portfolio's concentrated exposure to the South African economy and banking system, which is somewhat correlated with the credit risk of cell owners and (ii) the uncertainty around the level of its capital coverage under the upcoming SAM regulations."

36 Insurance and investment business

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

2018	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	45 259	24 212	47	69 518
Individual contracts with DPF	36 635	6 005	–	42 640
Smoothed bonus business	27 120	6 005	–	33 125
Conventional with-profit business	9 515	–	–	9 515
Group contracts with DPF	8 624	18 207	47	26 878
Smoothed bonus business	–	17 407	–	17 407
Smoothed bonus business – fully vesting	–	759	–	759
With-profit annuity business	8 624	41	47	8 712
Market-related business	16 655	166	226 090	242 911
Individual market-related business	16 667	166	149 854	166 687
Group market-related business	(12)	–	76 236	76 224
Other business	44 857	172	12 503	57 532
Non-profit annuity business	33 912	–	2 035	35 947
Guaranteed endowments	27	–	10 371	10 398
Other non-profit business	10 918	172	97	11 187
Subtotal	106 771	24 550	238 640	369 961
Liabilities in cell captive and short-term business	11 160	–	9 221	20 381
Total contract holder liabilities	117 931	24 550	247 861	390 342
2017				
Contracts with DPF	43 320	23 910	375	67 605
Individual contracts with DPF	35 097	6 064	356	41 517
Smoothed bonus business	25 921	6 064	356	32 341
Conventional with-profit business	9 176	–	–	9 176
Group contracts with DPF	8 223	17 846	19	26 088
Smoothed bonus business	–	16 695	–	16 695
Smoothed bonus business – fully vesting	–	896	–	896
With-profit annuity business	8 223	255	19	8 497
Market-related business	18 305	157	212 258	230 720
Individual market-related business	16 750	157	140 255	157 162
Group market-related business	1 555	–	72 003	73 558
Other business	42 602	208	11 591	54 401
Non-profit annuity business	33 719	–	1 870	35 589
Guaranteed endowments	30	–	9 623	9 653
Other non-profit business	8 853	208	98	9 159
Subtotal	104 227	24 275	224 224	352 726
Liabilities in cell captive and short-term business	10 015	63	9 210	19 288
Total contract holder liabilities	114 242	24 338	233 434	372 014

36 Insurance and investment business *continued*

36.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with DPF

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

Notes to the financial statements continued

For the year ended 30 June 2018

36 Insurance and investment business *continued*

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

Market-related business

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

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

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

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

Other non-profit business

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

36 Insurance and investment business *continued*

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

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 10.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

36.2 Long-term insurance risk

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

Long-term insurance risk management

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

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

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

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

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks

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

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

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

Individual insurance business

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

- Demographic risks are managed as follows:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the group to adjust these charges so that on average they reflect actual mortality experience reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - To reduce cross-subsidisation of risks and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
  - All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
  - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

- Demographic risks are managed as follows *continued*:
  - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured. Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured. Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place on existing business for fully underwritten and limited underwriting products, but only fully underwritten new business is reinsured and there is no reinsurance in place for funeral products.
  - Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MMIGL's catastrophe reinsurance cover for the current financial year is R750 million (2017: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

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

Sum insured per benefit (Rands)	2018 Number of benefits	2018 Amount (gross) Rm	2018 Amount (net) Rm	2017 Number of benefits	2017 Amount (gross) Rm	2017 Amount (net) Rm
0 – 20 000	**3 045 325**	**27 656**	**26 946**	3 282 951	23 145	21 513
20 001 – 50 000	**926 377**	**39 294**	**38 120**	1 029 698	31 682	30 194
50 001 – 100 000	**274 406**	**25 936**	**23 019**	316 720	21 917	18 853
100 001 – 200 000	**121 875**	**21 810**	**16 076**	159 305	26 354	19 896
200 001 – 500 000	**212 791**	**72 348**	**50 620**	231 963	82 909	54 099
500 001 – 1 000 000	**237 832**	**130 058**	**95 783**	241 880	132 388	95 483
> 1 000 000	**502 674**	**973 861**	**541 683**	635 689	927 946	517 617
Subtotal	**5 321 280**	**1 290 963**	**792 247**	5 898 206	1 246 341	757 655
Cell captive business	**6 371 594**	**389 344**	**111 695**	4 967 867	372 960	104 265
Total	**11 692 874**	**1 680 307**	**903 942**	10 866 073	1 619 301	861 920

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - Life insurance (mostly lump sum, but including some children and spouse's annuities)
  - Disability insurance (lump sum and income protection)
  - Dread disease cover
  - Continuation of insurance option.

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

Group insurance business continued

- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk exists.
  - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to limit anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 400 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an "actively at work" clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced.
  - There is a standard reinsurance treaty in place covering group business. Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured. There are some facultative arrangements in place on some schemes where a special structure is required, eg a very high free cover limit or high benefit levels. In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

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

Lives covered by scheme	2018	2017
0 – 1 000	**8 950**	9 190
1 001 – 5 000	**279**	284
> 5 000	**115**	131
Subtotal	**9 344**	9 605
Cell captive business	**110**	79
Total	**9 454**	9 684

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks continued

Annuity business

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

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

	2018		2017	
Annuity amount per annum (Rands)	**Number of annuitants**	**Total amount per annum Rm**	**Number of annuitants**	**Total amount per annum Rm**
0 – 10 000	**71 864**	**311**	76 579	328
10 001 – 50 000	**44 348**	**1 027**	48 020	1 089
50 001 – 100 000	**11 418**	**798**	11 218	783
100 001 – 200 000	**5 991**	**825**	5 708	783
> 200 000	**3 560**	**1 328**	3 224	1 184
Subtotal	**137 181**		144 749	
Cell captive business	**1 576**	**101**	1 747	101
Total	**138 757**		146 496	

Permanent health insurance business

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

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.2 Contract persistency risk

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

Factors affecting the risk:

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

How risks are managed:

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

36.2.3 Retrenchment risk

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

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.4 Expense risk

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

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

36.2.5 Business volume risk

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

36.3 Short-term insurance risk

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

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

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

The group conducts business in different classes of short-term insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (refer to note 37 for cell captive classes of business):

- Motor: Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property.
- Accident and Health: Provides policy benefits if a disability event, health event or death event occurs.

36 Insurance and investment business *continued*

36.3 Short-term insurance risk *continued*

- Liability: Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- Transportation: Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed.
- Miscellaneous: Provides policy benefits relating to any matter not otherwise provided for. This type of contract typically includes inter alia legal expense insurance.

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

	2018 Rm	2017 Rm
Premiums	**9 998**	8 661
Claims	**5 475**	5 077

37 Guardrisk

Introduction

MMI Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Guardrisk has to a large degree aligned all its risk management processes to that of the group and will continue to improve alignment where necessary.

Nature of business

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

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

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

The "promoter cell" is the portion of the business where Guardrisk transacts for its own account and therefore excludes the net results and all assets and liabilities of the first and third-party cell arrangements.

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

37 Guardrisk *continued*

Nature of business *continued*

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

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

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

Risk management

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

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

Cell captive arrangements

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

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

Contingency policy business

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

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

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

Notes to the financial statements continued

For the year ended 30 June 2018

37 Guardrisk *continued*

Risk management *continued*

Risk participation with cell shareholders

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

Terms and conditions of non-life insurance contracts

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

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

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

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

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

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

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

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

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

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

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

37 Guardrisk *continued*

Risk management *continued*

Terms and conditions of life insurance contracts

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

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

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

General risk overview

Guardrisk has an Audit and Risk committee and an Investment committee. These board sub-committees oversee the risk universe from general operations and investments respectively. Operational management of risk is delegated to the Guardrisk Executive committee with operational committees tasked in specific areas. New and existing product development initiatives are considered by the product management committees for appropriateness and viability that conforms to regulatory, legal, tax and accounting requirements.

For each cell or policy accepted by Guardrisk, a business take-on process is followed that utilises multi-disciplinary teams, including actuarial analysis, to determine major exposures to insurance risk. This take-on process varies in extent and detail depending on the significance of the new cell facility. Where the business take-on process identifies significant down-side risk, measures are put in place to manage the residual retained risks to remain within risk appetite.

Premiums charged for risks are regularly monitored by the underwriting and actuarial teams and, where necessary, adjustments are made to the theoretical premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

Reinsurance

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

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

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

Concentrations of insurance risk

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

37 Guardrisk *continued*

Risk management *continued*

Credit risk

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

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

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

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

38 Financial risk inherent in consolidated collective investment schemes and other investment products

The group consolidates a number of collective investment schemes and other investment products. Refer to Annexure A for information on the schemes consolidated.

As a result of exercising control over these schemes and other investment products, the MMI risk management framework is applicable to the risk management of these portfolios.

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

The management company 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 risk officer of the management company.

When considering any new investment for a portfolio, 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 portfolios' mandate is also assessed.

A portfolio's market risk appetite is measured as a function of current market conditions and its investment objective and mandate in conjunction with its relevant benchmark.

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

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

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39 Liquidity risk

Liquidity risk governance

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

The executive Balance Sheet Management committee (executive BSM) is responsible for the group's liquidity and funding risk management with the Board Risk Capital and Compliance committee providing oversight for funding and liquidity risk assumed in the group's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities and shareholder portfolios.

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 86% (2017: 86%) of the liabilities of the group. 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.

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

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

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

39 Liquidity risk *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

Conventional with-profit and smoothed bonus policyholder benefits continued

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

Linked and market-related policyholder benefits

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

Other policyholder benefits

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 risks compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows from which claims can be paid. Accrued liabilities are matched by liquid assets to meet cash outflows in excess of expected inflows.

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

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

39 Liquidity risk *continued*

Liquidity risk management *continued*

Shareholder funds

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

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

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

Liquidity profile of assets

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

	2018		2017	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**71**	**337 786**	72	324 909
Medium[2]	**24**	**113 513**	23	106 391
Low/illiquid[3]	**5**	**24 088**	5	23 693
Other assets not included above				
– employee benefit assets		**436**		410
– accelerated rental income		**252**		248
– deferred income tax		**290**		249
Total assets		**476 365**		455 900

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

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

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

39 Liquidity risk *continued*

Maturity profile of liabilities

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

2018 R million	Carrying value	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)[2]	106 771	106 771	16 461	13 248	25 612	19 504	31 946
Linked (market-related) business							
Individual	16 691	16 691	1 117	1 407	3 968	3 944	6 255
Employee benefits	(12)	(12)	–	(1)	(5)	(6)	–
Smoothed bonus business							
Individual	27 402	27 402	1 334	3 722	8 784	6 048	7 514
Employee benefits	3	3	3	–	–	–	–
Conventional with-profit business	9 459	9 459	3 227	636	1 115	776	3 705
Non-profit business							
Individual	8 041	8 041	2 671	114	539	157	4 560
Employee benefits	2 593	2 593	113	1 731	345	208	196
Annuity business	42 594	42 594	7 996	5 639	10 866	8 377	9 716
Investment contracts with DPF (DCFs)[2]	24 550	24 550	19 923	727	1 931	1 078	891
Linked (market-related) business							
Individual	166	166	7	16	69	42	32
Smoothed bonus business							
Individual	6 005	6 005	1 537	711	1 862	1 036	859
Employee benefits	18 164	18 164	18 164	–	–	–	–
Non-profit business							
Individual	20	20	20	–	–	–	–
Employee benefits	154	154	154	–	–	–	–
Annuity business	41	41	41	–	–	–	–
Investment contracts (undiscounted cash flows)	238 640	240 714	119 372	7 311	16 562	12 379	85 090
Linked (market-related) business							
Individual	149 617	149 553	43 647	3 969	5 635	12 231	84 071
Employee benefits	76 478	76 478	75 247	16	73	123	1 019
Non-profit business							
Individual	10 463	12 377	429	2 620	9 327	1	–
Annuity business	2 082	2 306	49	706	1 527	24	–

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2018 R million	Carrying value	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Subtotal policyholder liabilities under insurance and investment contracts	**369 961**	**372 035**	**155 756**	**21 286**	**44 105**	**32 961**	**117 927**
Cell captive and short-term business	20 381						
Total policyholder liabilities under insurance and investment contracts	**390 342**	**372 035**	**155 756**	**21 286**	**44 105**	**32 961**	**117 927**
Financial liabilities designated at fair value through income	38 217	39 634	28 441	5 530	4 508	1 155	–
Collective investment scheme liabilities	28 441	28 441	28 441	–	–	–	–
Subordinated call notes	4 374	5 791	–	1 151	3 502	1 138	–
Carry positions	4 272	4 272	–	4 272	–	–	–
Preference shares	1 020	1 020	–	20	1 000	–	–
Other	110	110	–	87	6	17	–
Derivative financial instruments[3]	2 255						
Amortised cost	2 420	2 292	–	1 340	263	689	–
Cumulative redeemable convertible preference shares	254	291	–	291	–	–	–
Other	2 166	2 001	–	1 049	263	689	–
Reinsurance contract liabilities	1 685	1 685	–	281	908	374	122
Other payables at amortised cost[4]	12 798	12 798	2	12 711	85	–	–
Other liabilities[5]	5 858						
Total liabilities	**453 575**	**428 444**	**184 199**	**41 148**	**49 869**	**35 179**	**118 049**

Notes to the maturity profile of liabilities table:

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

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

3 Cash flows for derivative financial instruments have been disclosed on a net basis below.

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

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

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected DCFs, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 10.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 28 June 2020 (maturity date extended from 27 June 2017 in the prior year). It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost:

- It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2019 (extended by 18 months in the current year), is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R486 million (2017: R487 million) with interest levied at 11% (2017: 11%). The interest is repaid monthly with the capital balance payable in December 2025. Also included is a loan from Standard Bank Ltd of R1 311 million (2017: Rnil) with interest levied at three-month JIBAR plus 2.10%. The interest on the loan will be capitalised against the loan balance until 1 April 2019. Thereafter, the interest will be repaid quarterly with the capital balance also being amortised quarterly and the balance payable in March 2026. Both loans are secured by underlying property.

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2017 R million	Carrying value	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)	104 227	104 227	15 641	11 459	24 920	19 912	32 295
Linked (market-related) business							
Individual	16 780	16 780	1 187	1 334	3 856	3 738	6 665
Employee benefits	1 555	1 555	–	181	551	393	430
Smoothed bonus business							
Individual	25 976	25 976	1 153	3 648	7 615	6 009	7 551
Employee benefits	4	4	4	–	–	–	–
Conventional with-profit business	9 120	9 120	3 069	572	1 109	732	3 638
Non-profit business							
Individual	6 404	6 404	2 391	82	406	170	3 355
Employee benefits	2 387	2 387	208	1 299	347	260	273
Annuity business	42 001	42 001	7 629	4 343	11 036	8 610	10 383
Investment contracts with DPF (DCFs)	24 275	24 275	19 245	749	2 102	1 185	994
Linked (market-related) business							
Individual	157	157	–	13	62	45	37
Smoothed bonus business							
Individual	6 064	6 064	1 402	715	1 976	1 090	881
Employee benefits	17 600	17 600	17 600	–	–	–	–
Non-profit business							
Individual	3	3	3	–	–	–	–
Employee benefits	196	196	196	–	–	–	–
Annuity business	255	255	44	21	64	50	76
Investment contracts (undiscounted cash flows)	224 224	226 315	112 442	4 639	17 528	9 727	81 979
Linked (market-related) business							
Individual	140 358	140 194	41 078	3 019	5 459	9 548	81 090
Employee benefits	72 271	72 271	71 191	14	66	111	889
Non-profit business							
Individual	9 706	11 817	151	992	10 673	1	–
Annuity business	1 889	2 033	22	614	1 330	67	–

Notes to the financial statements continued

For the year ended 30 June 2018

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2017 R million	Carrying value	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Subtotal policyholder liabilities under insurance and investment contracts	352 726	354 817	147 328	16 847	44 550	30 824	115 268
Cell captive and short-term business	19 288						
Total policyholder liabilities under insurance and investment contracts	372 014	354 817	147 328	16 847	44 550	30 824	115 268
Financial liabilities designated at fair value through income	37 331	38 703	24 961	8 114	4 218	1 410	–
Collective investment scheme liabilities	24 961	24 961	24 961	–	–	–	–
Subordinated call notes	3 602	4 974	–	349	3 215	1 410	–
Carry positions	7 676	7 676	–	7 676	–	–	–
Preference shares	1 018	1 018	–	18	1 000	–	–
Other	74	74	–	71	3	–	–
Derivative financial instruments	1 827						
Amortised cost	1 229	801	–	530	207	6	58
Cumulative redeemable convertible preference shares	261	299	–	299	–	–	–
Other	968	502	–	231	207	6	58
Reinsurance contract liabilities	1 368	968	–	968	–	–	–
Other payables at amortised cost	12 520	12 520	–	12 295	225	–	–
Other liabilities	6 363						
Total liabilities	432 652	407 809	172 289	38 754	49 200	32 240	115 326

39 **Liquidity risk** *continued*

Maturity profile of derivative financial instruments

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

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

2018 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(40)	(45)	(45)	–	–
Interest rate derivatives	1 705	1 308	683	1 894	(1 269)
Bond derivatives	(90)	12 385	(3 377)	1 219	14 543
Credit derivatives	1	(2)	3	4	(9)
Currency derivatives	(921)	(613)	(33)	(142)	(438)
Total net undiscounted cash flow projections	655	13 033	(2 769)	2 975	12 827
Derivative financial instruments					
Assets	2 910				
Liabilities	(2 255)				
	655				

2017 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	28	23	22	–	1
Interest rate derivatives	1 410	1 701	(321)	2 796	(774)
Bond derivatives	(36)	14 091	(1 926)	430	15 587
Credit derivatives	4	2	3	8	(9)
Currency derivatives	(794)	(483)	29	(201)	(311)
Total net undiscounted cash flow projections	612	15 334	(2 193)	3 033	14 494
Derivative financial instruments					
Assets	2 439				
Liabilities	(1 827)				
	612				

Notes to the financial statements continued

For the year ended 30 June 2018

40 Market risk

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

Financial instruments held by the group are subject to the components of market risk as follows:

	Carrying value 2018 Rm	Carrying value 2017 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**104 199**	101 290	✓✓		✓
Debt securities	**108 618**	99 645	✓	✓✓	✓
Funds on deposit and other money market instruments	**27 524**	26 616	✓	✓✓	✓
Unit-linked investments	**154 805**	141 654	✓✓	✓	✓
Investments in associates designated at fair value through income	**11 383**	15 039	✓✓	✓	✓
Derivative financial instruments					
Held for trading	**2 910**	2 439	✓✓	✓✓	✓
Available-for-sale					
Equity securities	**–**	8	✓✓		
Local unlisted quoted collective investment schemes	**–**	10	✓✓		
Carried at amortised cost					
Held-to-maturity	**437**	397		✓✓	✓✓
Loans and receivables					
Accounts receivable	**2 138**	3 747		✓	✓
Unsettled trades	**602**	557			✓
Loans	**2 693**	2 773		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 631**	4 292		✓	✓
Cash and cash equivalents	**25 812**	27 353		✓✓	✓
Other non-financial assets	**30 613**	30 080	N/A	N/A	N/A
Total assets	**476 365**	455 900			

	Carrying value 2018 Rm	2017 Rm	Market price risk	Interest rate risk	Currency risk
40 Market risk *continued*					
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**247 861**	233 434	✓✓	✓✓	✓
Designated at fair value through income					
Collective investment scheme liabilities	**28 441**	24 961	✓✓	✓	✓
Subordinated call notes	**4 374**	3 602	✓	✓✓	
Carry positions	**4 272**	7 676	✓	✓✓	
Preference shares	**1 020**	1 018	✓	✓✓	
Other	**110**	74		✓	✓
Derivative financial instruments					
Held for trading	**2 255**	1 827	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable preference shares	**254**	261		✓✓	
Other	**2 166**	968		✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**5 762**	5 277			✓
Payables arising from investment contracts	**981**	668			✓
Unsettled trades	**606**	852			✓
Commission creditors	**941**	939		✓	✓
Other payables at amortised cost	**4 532**	4 929		✓	✓
Insurance contract liabilities	**117 931**	114 242	*	*	*
Investment contracts with DPF liabilities	**24 550**	24 338	✓✓	✓✓	✓✓
Other non-financial liabilities	**7 519**	7 586	N/A	N/A	N/A
Total liabilities	**453 575**	432 652			

✓✓ High exposure
✓ Medium/low exposure
* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 36.

40 Market risk *continued*

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

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

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

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

Market risk governance

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

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

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

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

Market risk management per product

Individual and group contracts with DPF

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

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

40 Market risk *continued*

Market risk management per product *continued*

Individual and group contracts with DPF continued

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with DPF and continuous guarantees

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

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

Market-related/unit-linked business

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

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

40 Market risk *continued*

Market risk management per product *continued*

Individual contracts offering investment guarantees

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

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

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

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

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

Non-profit annuity business

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

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

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R15 million (2017: R8 million) for MMIGL.

The liability valuation calculation for MMIGL annuities is based on the risk-free yield curve. The average rate that produces the same result is 11.4% (2017: 9.7%).

40 Market risk *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

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

A variation on guaranteed endowment policies 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 and the risk of the offshore indices is generally hedged through equity-linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the group's reinsurance policies.

Other non-profit business

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

Shareholder cash flows in respect of individual contracts with investment components

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

40.1 Market risk management per risk factor

Equity risk

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

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

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

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

40 Market risk *continued*

40.1 Market risk management per risk factor *continued*

Equity risk *continued*

Unlisted equity investment risks are managed as follows:

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

Refer to the sensitivity analysis in note 40.5.

40.2 Interest rate risk

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

Exposure of financial instruments to interest rates

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

40 Market risk *continued*

40.2 Interest rate risk *continued*

Instrument class 2018	Carrying value Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
Designated at fair value through income					
Debt securities	**108 618**	**43 188**	**64 391**	**1 039**	**7.2**
Funds on deposit and other money market instruments	**27 524**	**22 234**	**5 280**	**10**	**7.2**
Derivative financial assets	**2 910**	**–**	**2 910**	**–**	**N/A**
Derivative financial liabilities	**(2 255)**	**–**	**(2 255)**	**–**	**N/A**
Held-to-maturity	**437**	**39**	**398**	**–**	**18.4**
Cash and cash equivalents	**25 812**	**21 812**	**2 307**	**1 693**	**5.5**
Loans and receivables	**5 433**	**3 595**	**354**	**1 484**	**6.4**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 631**	**1**	**–**	**4 630**	**–**
	173 110	**90 869**	**73 385**	**8 856**	
2017					
Designated at fair value through income					
Debt securities	99 645	34 355	63 320	1 970	7.0
Funds on deposit and other money market instruments	26 616	21 505	5 070	41	7.2
Derivative financial assets	2 439	–	2 439	–	N/A
Derivative financial liabilities	(1 827)	–	(1 827)	–	N/A
Held-to-maturity	397	36	361	–	19.9
Cash and cash equivalents	27 353	21 947	3 245	2 161	4.9
Loans and receivables	7 077	2 699	1 247	3 131	6.6
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 292	–	24	4 268	–
	165 992	80 542	73 879	11 571	

Liability exposure to interest rates is reflected in note 11.

Notes to the financial statements continued

For the year ended 30 June 2018

40 Market risk *continued*

40.3 Currency risk

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

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

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

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

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

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

2018	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*18.1159*	*13.7088*	*16.0000*			
Investment securities							
Designated at fair value through income							
Equity securities	525	1 855	14 842	1 954	1 868	1 585	22 629
Debt securities	1 046	203	3 274	1 358	–	27	5 908
Funds on deposit and other money market instruments	332	2	33	–	–	94	461
Unit-linked investments	–	2 321	40 025	1 009	17	91	43 463
Investments in associates	–	21	825	–	–	–	846
Derivative financial instruments	–	–	110	–	4	–	114
Held-to-maturity	365	–	–	–	–	12	377
Loans and receivables	39	7	298	25	13	116	498
Cash and cash equivalents	366	477	4 524	802	163	204	6 536
Other financial assets	137	12	305	–	–	2	456
	2 810	4 898	64 236	5 148	2 065	2 131	81 288

40 Market risk *continued*

40.3 Currency risk *continued*

2017	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*17.0068*	*13.0909*	*14.9254*			
Investment securities							
Designated at fair value through income							
Equity securities	486	1 631	13 089	1 594	1 648	1 403	19 851
Debt securities	973	122	2 783	1 506	–	82	5 466
Funds on deposit and other money market instruments	489	–	6	–	–	70	565
Unit-linked investments	13	2 139	36 749	1 398	6	90	40 395
Investments in associates	–	24	376	–	–	–	400
Derivative financial instruments	–	–	39	–	–	–	39
Held-to-maturity	377	–	–	–	–	20	397
Loans and receivables	97	121	177	36	23	113	567
Cash and cash equivalents	328	307	4 968	667	26	212	6 508
Other financial assets	92	–	223	–	–	16	331
	2 855	4 344	58 410	5 201	1 703	2 006	74 519

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

African exchange rates representing material balances above are:

Closing exchange rate	Botswana	Ghana	Kenya	Nigeria
2018	**1.3135**	**2.8498**	**0.1358**	**0.0379**
2017	1.2753	2.9818	0.1261	0.0416

Notes to the financial statements continued

For the year ended 30 June 2018

40 Market risk *continued*

40.4 Property risk

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

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

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

	2018 Rm	2017 Rm
Investment properties	**8 614**	7 340
Owner-occupied properties	**3 864**	4 105
Properties under development	**136**	111
Collective investment schemes > 55% property exposure (refer to Annexure B)	**3 627**	5 187
	16 241	16 743
Percentage of total assets	**3.4%**	3.7%

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

The group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2018. The carrying amount of unlet and vacant investment property as at 30 June 2018 was R705 million (2017: R647 million).

40.5 Sensitivity to market risk

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

	Equity prices		Interest rates	
2018	**Increase by 10% Rm**	**Decrease by 10% Rm**	**Increase by 100 bps Rm**	**Decrease by 100 bps Rm**
Increase/(decrease) in earnings per income statement	**144**	**(195)**	**(68)**	**(287)**
Increase/(decrease) in equity	**344**	**(395)**	**(21)**	**(306)**
2017				
Increase/(decrease) in earnings per income statement	139	(143)	75	(78)
Increase/(decrease) in equity	336	(340)	86	(131)

40 Market risk *continued*

40.5 Sensitivity to market risk *continued*

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

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

Mitigation

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

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

Currency sensitivity

The impact of changes in currency on earnings and equity for the group is not considered to be material. Refer to note 40.3 for more details on the group's currency exposure.

41 Credit risk

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

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

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

41 Credit risk *continued*

Credit risk governance

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

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

- Quality of the credit portfolio
- Stress quantification
- Credit defaults against expected losses
- Credit concentration risk
- Appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Board Risk, Capital and Compliance committee.

Managing credit risk

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

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

The following are taken into account in the approval process:

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

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

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

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

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

41 Credit risk *continued*

Concentration risk

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

Unit-linked investments

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

Derivative contracts

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

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

Scrip lending

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

Scrip lending agreements are governed by the Global Master Securities Lending Agreement (GMSLA).

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

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

There was no scrip on loan in the current or prior year.

Loans and receivables

Due from agents, brokers and intermediaries

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

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

Notes to the financial statements continued

For the year ended 30 June 2018

41 Credit risk *continued*

Loans and receivables *continued*

Policy loans

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

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

Reinsurance

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

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

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

Credit risk exposure

For the group's maximum exposure to credit risk refer to note 6.7.

Financial assets and liabilities designated at fair value through income

The current year and cumulative fair value movements on instruments that would have otherwise been classified as loans and receivables or payables under IAS 39, but which have been designated at fair value through income, were due to market movements in the current year. The prior year fair value movement included R24 million loss attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

On 23 March 2018, Moody's confirmed the BBB- sovereign credit rating of South Africa with a stable outlook. Subsequently, Moody's confirmed MMIGL's IFS international scale rating of Baa2 (national rating of Aaa.za) and Guardrisk's IFS rating of Baa3 (national scale rating of Aaa.za) with a stable outlook on 27 March 2018.

Security and credit enhancements

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

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

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

Debt securities

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R565 million (2017: R435 million), is secured by direct properties. The market value of the properties exceed the fair value of the rentals.

41 Credit risk *continued*

Security and credit enhancements *continued*

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R462 million at 30 June 2018 (2017: R521 million).

Loans and receivables

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

Policy loans of R1 383 million (2017: R1 469 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 6.4. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables

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

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MMI Holdings Ltd

Statement of financial position

At 30 June 2018

	2018 Rm	2017 Rm	Notes
ASSETS			
Interest in subsidiary companies	**22 862**	21 843	2
Financial instruments	**1 587**	1 381	
Loans and receivables	**1 587**	1 381	3
Current income tax asset	**–**	1	10.1
Cash and cash equivalents	**26**	16	4
Total assets	**24 475**	23 241	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	**17 601**	17 594	5
Other components of equity	**55**	55	
Retained earnings	**6 540**	5 246	
Total equity	**24 196**	22 895	
LIABILITIES			
Financial instruments	**254**	261	
Amortised cost	**254**	261	6
Employee benefit obligations	**–**	23	8
Other payables	**24**	62	9
Current income tax liability	**1**	–	10.1
Total liabilities	**279**	346	
Total equity and liabilities	**24 475**	23 241	

Income statement

For the year ended 30 June 2018

	2018 Rm	2017 Rm	Notes
Investment income	**3 855**	3 167	11
Net income	**3 855**	3 167	
Impairment expenses	**63**	120	12
Employee benefit expenses	**–**	36	13
Other expenses	**21**	28	14
Expenses	**84**	184	
Results of operations	**3 771**	2 983	
Finance costs	**(37)**	(39)	15
Profit before tax	**3 734**	2 944	
Income tax	**(18)**	(6)	10.2
Earnings for year attributable to owners of the company	**3 716**	2 938	

Statement of comprehensive income

For the year ended 30 June 2018

	2018 Rm	2017 Rm
Earnings for year	**3 716**	2 938
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the company	**3 716**	2 938

Statement of changes in equity

For the year ended 30 June 2018

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2016	17 580	4 779	55	22 414	
Total comprehensive income	–	2 938	–	2 938	
Dividend paid	–	(2 471)	–	(2 471)	
Conversion of preference shares	14	–	–	14	5
Balance at 1 July 2017	**17 594**	**5 246**	**55**	**22 895**	
Total comprehensive income	**–**	**3 716**	**–**	**3 716**	
Shares repurchased	**–**	**(974)**	**–**	**(974)**	
Dividend paid	**–**	**(1 448)**	**–**	**(1 448)**	
Conversion of preference shares	**7**	**–**	**–**	**7**	5
Balance at 30 June 2018	**17 601**	**6 540**	**55**	**24 196**	

Statement of cash flows

For the year ended 30 June 2018

	2018 Rm	2017 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**567**	(128)	16.1
Dividends received	**3 170**	2 767	
Interest received	**78**	78	11
Income tax paid	**(16)**	(6)	16.2
Interest paid	**(37)**	(39)	16.3
Net cash inflow from operating activities	**3 762**	2 672	
Cash flow from investing activities			
Investments in subsidiary companies	**(555)**	(332)	
Loans advanced to related parties	**(802)**	(580)	
Loans repaid by related parties	**27**	694	
Net cash outflow from investing activities	**(1 330)**	(218)	
Cash flow from financing activities			
Shares repurchased	**(974)**	–	
Dividends paid	**(1 448)**	(2 471)	
Net cash outflow from financing activities	**(2 422)**	(2 471)	
Net cash flow	**10**	(17)	
Cash and cash equivalents at beginning	**16**	33	
Cash and cash equivalents at end	**26**	16	4

Notes to the financial statements

For the year ended 30 June 2018

1 Basis of preparation and accounting policies

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

		2018 Rm	2017 Rm
2	**Interest in subsidiary companies**		
	Cost less impairment	**22 203**	20 959
	Loans to subsidiary companies (Annexure A)	**659**	884
		22 862	21 843
	Opening balance	**21 843**	21 792
	Cost of interest in subsidiaries acquired	**1 307**	358
	Repayment of loan capitalised	**–**	(28)
	Less: impairment charge	**(63)**	(38)
	Movements in loans to subsidiary companies	**(225)**	(241)
	Closing balance	**22 862**	21 843

General

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

Loans to subsidiary companies

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

Additions to the cost of subsidiaries and other movements

MMI Strategic Investments (Pty) Ltd (MMISI): The company acquired additional shares in MMISI for R645 million during the current year (2017: R41 million).

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R662 million during the current year.

Metropolitan International Support (Pty) Ltd (MIS): The company capitalised R116 million of its loan to MIH. MIS is a subsidiary of MIH.

Metropolitan Health (Pty) Ltd (MH): In the prior year, the company capitalised R115 million of its loan to MH.

Momentum Retirement Administrators (Pty) Ltd (MRA): In the prior year, R28 million of the loan that was previously capitalised was repaid and the MRA business was moved to MMI Group Ltd.

MMI Finance Company (Pty) Ltd (MMI FINCO): In the prior year, the company acquired additional shares in MMI FINCO for R200 million.

Union Money (Pty) Ltd (UM): In the prior year, the company acquired additional shares in UM for R2 million.

Impairment

Management performed an impairment review on all investments in subsidiaries with reference to directors' valuations. The valuation use cash flow projections which are based on financial budgets approved by management covering a five-year period.

The company impaired the investment in MMI FINCO by R63 million in the current year. In the prior year, the company impaired the investments in Metropolitan Odyssey Ltd (R36 million) and UM (R2 million).

		2018 Rm	2017 Rm
3	**Loans and receivables**		
	Accounts receivable	**62**	68
	Loans to related parties	**1 524**	1 312
	Loans to subsidiary companies (Annexure A)	**1 520**	1 285
	Less: provision for impairment on loans to subsidiary companies	**(310)**	(310)
	Loans to associates	**1**	1
	Preference shares	**50**	65
	Empowerment partners	**263**	271
	Strategic unsecured loans	**1**	1
		1 587	1 381
	Current	**1 537**	1 316
	Non-current	**50**	65
		1 587	1 381
	Reconciliation of provision for impairment		
	Opening balance	**310**	228
	Additional provisions for current year (refer to note 12)	**–**	82
	Closing balance	**310**	310

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. When the subsidiary is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- Preference shares: MMI Holdings Ltd acquired preference shares in EPF for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R8 million (2017: R7 million). The preference shares mature in 2019 (extended from 2018 in the current year). The carrying value approximates fair value.
- Loans to empowerment partners: The loans to empowerment partners is R263 million (2017: R271 million) at 30 June 2018, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2019 (after extending it under the same terms by 18 months in the current year).

The fair value of loans to empowerment partners at 30 June 2018 approximates the carrying value as the repayment date is within one year.

The loans are not past due.

Impairment

The loans to subsidiary companies were impaired by R82 million in the prior year.

Notes to the financial statements continued

For the year ended 30 June 2018

	2018 Rm	2017 Rm
4 Cash and cash equivalents		
Bank and other cash balances	**26**	16

The carrying value approximates fair value due to its short-term nature.

5 Share capital and share premium

Authorised share capital of MMI Holdings Ltd

2 billion ordinary shares of 0.0001 cents each

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

Issued share capital of MMI Holdings Ltd

1.5 billion ordinary shares of 0.0001 cents each

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

Number of shares in issue (million)	2018	2017
Opening balance	**1 575**	1 574
Share buy-back	**(47)**	–
Conversion of preference shares	**1**	1
Closing balance	**1 529**	1 575

Share capital and share premium	2018 Rm	2017 Rm
Opening balance	**17 594**	17 580
Conversion of preference shares	**7**	14
Closing balance	**17 601**	17 594

On 2 October 2017, 752 720 A3 preference shares were converted into ordinary shares.

Further details of the preference shares and the share buy-back are disclosed in note 11.2 and note 15 respectively of the group financial statements.

		2018 Rm	2017 Rm
6	**Financial liabilities at amortised cost**		
	Cumulative redeemable convertible preference shares – current	**254**	261
	Due at beginning	**261**	275
	Accrued interest	**37**	39
	Interest paid	**(37)**	(39)
	Converted	**(7)**	(14)
	Due at end	**254**	261

Details of the cumulative redeemable convertible preference shares are disclosed in note 11.2 of the group financial statements.

The estimated fair value of the cumulative redeemable preference shares is R514 million (2017: R583 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2018, the expected cash flows were discounted at a current market rate of 12% (2017: 12%) (level 2). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. In the current year, the compulsory redemption date was extended by 18 months to 29 June 2019, under the same terms. The extension was treated as a renegotiation of the original contract. The liability has therefore been adjusted by the present value of the additional cash flow resulting from the extension.

		2018 Rm	2017 Rm
7	**Deferred income tax**		
	Deferred tax asset	**3**	4
	Tax losses and credits	**3**	4
	Deferred tax liability	**(3)**	(4)
	Revaluations	**(3)**	(4)
		–	–
	Movement in deferred tax		
	Balance at beginning	**–**	–
	Charge to income statement	**–**	–
	Revaluations	**15**	(16)
	Tax losses and credits	**(15)**	16
	Balance at end	**–**	–

Creation of deferred tax asset

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

A deferred tax asset of R3 million (2017: R4 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

Notes to the financial statements continued

For the year ended 30 June 2018

		2018 Rm	2017 Rm
8	**Employee benefit obligations**		
	Cash-settled scheme	**–**	1
	Subsidiary share scheme	**–**	16
	Staff and management bonuses	**–**	6
		–	23
	Current	**–**	7
	Non-current	**–**	16
		–	23
	Cash-settled scheme – long-term incentive plan		
	Balance at beginning	**1**	4
	Unutilised amounts reversed	**(1)**	(2)
	Benefits paid	**–**	(1)
	Balance at end	**–**	1
	Subsidiary share schemes		
	Balance at beginning	**16**	11
	Unutilised amounts reversed	**(16)**	–
	Interest expense	**–**	1
	Actuarial losses	**–**	1
	Current service costs	**–**	3
	Balance at end	**–**	16

	2018 MMI LTIP '000	2017 MMI LTIP '000
8 Employee benefit obligations *continued*		
Refer to note 14.1.2 of the group financial statements for details of this plan.		
Number of units outstanding		
At beginning of year	**92**	315
Units granted during year	**–**	92
Units transferred to other companies	**(92)**	(266)
Units exercised/released during year	**–**	(49)
At end of year	**–**	92
Performance units	**–**	41
Retention units	**–**	51
	–	92
Inputs used in valuation of the MMI LTIP		
Current vesting rate	**N/A**	100%
Share price at reporting date	**N/A**	R22.24
Inputs used in valuation of the subsidiary share scheme		
Risk-free rates	**N/A**	9.4%
Growth rate	**N/A**	11.7%
Forfeiture rate	**N/A**	5%

	2018 Rm	2017 Rm
9 Other payables		
Other payables	**24**	24
Loans from subsidiary companies (Annexure A)	**–**	38
	24	62
Current	**24**	62

For accounts payable, the carrying value approximates fair value due to its short-term nature.

The loans from subsidiary companies are interest-free, unsecured and payable on demand. The carrying value therefore approximates fair value.

Notes to the financial statements continued

For the year ended 30 June 2018

		2018 Rm	2017 Rm
10	**Income tax**		
10.1	**Current income tax liability/(asset)**		
	Movement in liability/(asset)		
	Balance at beginning	**(1)**	(1)
	Charged to income statement	**18**	6
	Paid during year	**(16)**	(6)
	Balance at end	**1**	(1)
10.2	**Income tax expense**		
	Current taxation		
	Current year		
	South African normal tax	**3**	4
	Foreign countries – withholding tax	**15**	2
		18	6
		%	**%**
	Tax rate reconciliation		
	Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
	Foreign tax	**0.4**	0.1
	Non-taxable items[1]	**(28.3)**	(28.9)
	Non-deductable expenses	**0.4**	1.0
	Effective rate	**0.5**	0.2

[1] Non-taxable items include dividend income.

		Rm	Rm
11	**Investment income**		
	Dividends received – subsidiary companies	**3 757**	3 088
	Interest income	**78**	78
	Loans and receivables	**66**	71
	Cash and cash equivalents	**12**	7
	Other income	**20**	1
		3 855	3 167
12	**Impairment expenses**		
	Impairment of loans to subsidiary companies	**–**	82
	Impairment of investments in subsidiaries	**63**	38
		63	120

	2018 Rm	2017 Rm
13 Employee benefit expenses		
Salaries	–	20
Defined contribution retirement fund	–	1
Cash-settled share-based payment expenses	–	(2)
Subsidiary share scheme expenses	–	5
Training costs	–	1
Other[1]	–	11
	–	36

Details of the staff share schemes are disclosed in note 14.1.2 of the group financial statements.

[1] Includes restraint of trade payment in the prior year.

	2018 Rm	2017 Rm
14 Other expenses		
Asset management fees[1]	–	1
Auditors' remuneration[1]	–	–
Consulting fees	3	8
Legal fees	3	–
Marketing costs[1]	–	2
Other expenses	12	15
Other indirect taxes	3	2
	21	28
Non-executive directors' emoluments included in other expenses above.	11	14

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

	2018 Rm	2017 Rm
15 Finance costs		
Interest expense on liabilities at amortised cost		
Redeemable preference shares	37	39

Notes to the financial statements continued

For the year ended 30 June 2018

		2018 Rm	2017 Rm
16	**Cash flow from operating activities**		
16.1	**Cash utilised in operations**		
	Profit before tax	**3 734**	2 944
	Adjusted for		
	Items disclosed elsewhere		
	Dividend received	**(3 172)**	(3 089)
	Interest received	**(78)**	(78)
	Finance costs	**37**	39
	Non-cash-flow items		
	Employee benefit obligations	**(1)**	3
	Impairment charges	**63**	120
	Changes in operating assets and liabilities		
	Loans and receivables	**6**	(63)
	Employee benefit obligations	**(22)**	(2)
	Other operating liabilities	**–**	(2)
		567	(128)
16.2	**Income tax paid**		
	Due at beginning	**1**	1
	Charged and provided	**(18)**	(6)
	Due at end	**1**	(1)
		(16)	(6)
16.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(19)**	(20)
	Paid 31 March	**(18)**	(19)
		(37)	(39)

17 Related party transactions

17.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 342 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 25.8% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 30.1 in the group financial statements for more details.

17.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 30.2 of the group financial statements.

17.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates are included in note 3.

17 Related party transactions *continued*

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

	2018 Rm	2017 Rm
Asset management fee expense – Momentum Asset Management (Pty) Ltd	–	3
Dividends from subsidiaries – MMI Group Ltd	3 047	2 812
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	37	36
Dividends from subsidiaries – Metropolitan Lesotho Ltd	65	60
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	22	85
Dividends from subsidiaries – Metropolitan Collective Investments Ltd	15	10
Dividends from subsidiaries – MMI Finance Company (Pty) Ltd	4	1
Dividends from subsidiaries – Metropolitan Health Holdings (Pty) Ltd	563	–
Dividends from subsidiaries – Cshell 448 (Pty) Ltd	4	–
Dividends from subsidiaries – Metropolitan Odyssey Ltd	–	63
Dividends from subsidiaries – Union Money (Pty) Ltd	–	1
Dividends from subsidiaries – Metropolitan Life International Ltd	–	20
Interest received – MMI Group Ltd	35	36
Interest received – Eris Property Fund (Pty) Ltd	8	7
Interest received – KTH	–	4
Interest received – Off the Shelf Investments (Pty) Ltd	23	25
Finance costs – KTH	37	39

Refer to note 3 for loans and receivables with related parties.

Refer to note 30 of the group financial statements for further details on related party transactions with directors and key management personnel.

18 Contingent liabilities

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

19 Capital commitments

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

20 Risk management policies

Details of financial instruments and risk management strategies are disclosed in notes 6 and 34 of the group financial statements. The more important financial risks to which the company is exposed are credit risk and interest rate risk.

The company's capital is managed with that of the group. The capital management of the group is discussed in note 35 of the group financial statements.

20.1 Classes of financial assets and liabilities

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

Notes to the financial statements continued

For the year ended 30 June 2018

	2018 Rm	2017 Rm
20 Risk management policies *continued*		
20.1 Classes of financial assets and liabilities *continued*		
Assets		
Loans and receivables	**1 587**	1 381
Loans	**1 525**	1 313
Accounts receivable	**62**	68
Cash and cash equivalents	**26**	16
Other assets	**22 862**	21 844
Total assets	**24 475**	23 241
Liabilities		
Amortised cost	**254**	261
Cumulative redeemable preference shares	**254**	261
Other payables	**24**	62
Loans from subsidiary companies	**–**	38
Other payables	**24**	24
Other liabilities	**1**	23
Total liabilities	**279**	346

The definitions of classes of financial assets and liabilities are disclosed in Annexure D of the group financial statements.

20.2 Credit risk

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

The credit risk of the company is managed similarly to that of the group as disclosed in note 41 in the group financial statements.

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

	2018 Rm	2017 Rm
Loans and receivables	**1 587**	1 381
Loans	**1 525**	1 313
Accounts receivable	**62**	68
Cash and cash equivalents	**26**	16
Total assets bearing credit risk	**1 613**	1 397

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the group's credit risk exposure policy described in the group financial statements.
- Security held on loans is disclosed in note 3.

Using S&P ratings (or the equivalent thereof when S&P ratings are not available), cash and cash equivalents have an A (2017: A) credit rating. Loans and receivables consist mainly of loans to related parties and are unrated.

20 Risk management policies *continued*

20.3 Liquidity risk

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

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2019 (extended by 18 months in the current year), is assumed. The company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

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

The following table indicates the maturity analysis of the liabilities:

		Undiscounted cash flows		
	Carrying value Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm
2018				
Amortised cost				
Cumulative redeemable preference shares	**254**	**291**	**291**	**–**
Other payables	**24**	**24**	**24**	**–**
Other liabilities	**1**	**1**	**1**	**–**
Total liabilities	**279**	**316**	**316**	**–**
2017				
Amortised cost				
Cumulative redeemable preference shares	261	299	299	–
Other payables	62	62	62	–
Other liabilities	23	23	7	16
Total liabilities	346	384	368	16

Notes to the financial statements continued

For the year ended 30 June 2018

20 Risk management policies *continued*

20.4 Market risk

Introduction

- Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key component of market risk applicable to the company is interest rate risk.

20.4.1 Interest rate risk

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

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

The company is exposed to floating interest rates that result in cash flow interest rate risk. Loans and receivables (empowerment loans) have a weighted average interest rate of 8.5% (2017: 8.5%). Cash and cash equivalents have a weighted average interest rate of 5% (2017: 5%).

20.4.2 Sensitivity to market risks

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates have the most significant effect on earnings and equity.

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

The company has no foreign currency exposure.

Annexure A

Significant subsidiary companies

Companies	Country of incor-poration, where not South Africa	Interest held 2018 %	Interest held 2017 %	Cost 2018 Rm	Cost 2017 Rm	Loans to subsidiaries[1] 2018 Rm	Loans to subsidiaries[1] 2017 Rm
MMI Group Ltd		**100**	100	**18 129**	18 129	**–**	–
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
MMI Health (Pty) Ltd		**100**	100				
Momentum Consult (Pty) Ltd		**100**	100				
Momentum Life Botswana Ltd	Botswana	**100**	100				
Momentum Asset Management (Pty) Ltd		**100**	100				
Momentum Global Investment Management Ltd	United Kingdom	**100**	100				
Momentum Collective Investments (RF) (Pty) Ltd		**100**	100				
Momentum Alternative Investments (Pty) Ltd		**100**	100				
Momentum International MultiManagers (Pty) Ltd		**100**	100				
Momentum Wealth (Pty) Ltd		**100**	100				
Momentum Wealth International Ltd	Guernsey	**100**	100				
102 Rivonia Road (Pty) Ltd		**80**	80				
Momentum Short Term Insurance Company Ltd		**100**	100				
MMI Short Term Insurance Administration (Pty) Ltd		**100**	100				
MMI Multiply (Pty) Ltd		**100**	100				
Metropolitan Odyssey Ltd		**100**	100	**36**	36	**–**	–
Metropolitan International Holdings (Pty) Ltd		**100**	100	**1 899**	1 237	**426**	480
Subsidiary companies							
MMI Holdings Namibia Ltd	Namibia	**96.5**	96.5				
Cold Trade (Pty) Ltd	Namibia	**100**	100				
Metropolitan Life (Mauritius) Ltd	Mauritius	**100**	70				
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
Subtotal				**20 064**	19 402	**426**	480

Annexure A continued

Significant subsidiary companies

Companies	Country of incor-poration, where not South Africa	Interest held 2018 %	Interest held 2017 %	Cost 2018 Rm	Cost 2017 Rm	Loans to subsidiaries[1] 2018 Rm	Loans to subsidiaries[1] 2017 Rm
Subtotal carried forward				**20 064**	19 402	**426**	480
UBA Metropolitan Life Insurance Ltd	Nigeria	**100**	100				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Cannon Assurance Ltd	Kenya	**96**	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	**100**	100				
Metropolitan Life Swaziland Ltd	Swaziland	**67**	67				
Momentum Insurance (Swaziland) Ltd	Swaziland	**100**	100				
Metropolitan International Support (Pty) Ltd		**100**	100	**–**	–	**–**	116
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	**66.7**	66.7				
Momentum Mozambique LDA	Mozambique	**66.7**	66.7				
MMI Finance Company (Pty) Ltd		**100**	100	**600**	600	**20**	58
Metropolitan Life International Ltd		**100**	100	**47**	47	**–**	–
Metropolitan Life of Botswana Ltd	Botswana	**100**	100	**73**	73	**–**	–
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120**	120	**–**	–
Momentum Retirement Administrators (Pty) Ltd		**100**	100	**–**	–	**–**	–
MMI Strategic Investments (Pty) Ltd		**100**	100	**918**	273	**–**	–
Subsidiary companies							
Momentum SP Reid Securities (Pty) Ltd		**100**	100				
Momentum Outcome-Based Solutions (Pty) Ltd		**100**	100				
Guardrisk Life Ltd		**100**	100				
Guardrisk Life International Ltd	Mauritius	**100**	100				
Guardrisk Allied Products & Services (Pty) Ltd		**100**	100				
Guardrisk Insurance Company Ltd		**100**	100				
Guardrisk International Ltd PCC	Mauritius	**100**	100				
Subtotal				**21 822**	20 515	**446**	654

Companies	Country of incor-poration, where not South Africa	Interest held 2018 %	Interest held 2017 %	Cost 2018 Rm	Cost 2017 Rm	Loans to subsidiaries[1] 2018 Rm	Loans to subsidiaries[1] 2017 Rm
Subtotal carried forward				**21 822**	20 515	**446**	654
MMI Holdings UK Ltd	United Kingdom	**100**	100				
Subsidiary companies							
Exponential Ventures LLP	United Kingdom	**80**	80				
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	100				
Financial Partners Ltd	Hong Kong	**100**	100				
MET Collective Investments (RF) (Pty) Ltd		**100**	100	**26**	26	**–**	–
Eris Property Group (Pty) Ltd		**76.3**	76.3	**407**	407	**–**	–
Metropolitan Health (Pty) Ltd		**100**	100	**447**	447	**213**	230
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**51**	100				
MetHealth (Pty) Ltd		**100**	100				
Metropolitan Health Risk Management (Pty) Ltd		**51**	100				
Global Doctor Networks (Pty) Ltd		**91.4**	91.4				
Hello Doctor (Pty) Ltd		**100**	100				
Momentum Trust Ltd		**100**	100	**8**	8	**–**	–
Less: impairments				**(507)**	(444)	**–**	–
Total interest in subsidiary companies				**22 203**	20 959	**659**	884

[1] These loans have been provided as a long-term source of additional capital for the subsidiary.

Annexure A continued

Significant subsidiary companies

Other loans to/(from) subsidiaries	2018 Rm	2017 Rm
MMI Strategic Investments (Pty) Ltd	**929**	821
MMI Infrastructure and Operations (Pty) Ltd	**200**	201
MMI Health (Pty) Ltd	**132**	132
Cshell 448 (Pty) Ltd	**–**	9
Metropolitan Capital (Pty) Ltd	**137**	121
Eris Property Fund (Pty) Ltd	**5**	1
MMI Group Ltd	**117**	–
	1 520	1 285
Less: impairments	**(310)**	(310)
Loans to subsidiary companies	**1 210**	975
MMI Group Ltd	**–**	(37)
Metropolitan Life of Botswana Ltd	**–**	(1)
Loans from subsidiary companies	**–**	(38)

At 30 June, the following collective investment schemes (CIS) were significant subsidiaries of the group:

	Interest held		Carrying value	
	2018 %	2017 %	2018 Rm	2017 Rm
Momentum IF Global Equity Class A USD Fund	66.2	66.9	14 616	12 700
Momentum MF Global Aggressive Sub Fund	100	100	6 592	5 611
Momentum SA Defensive Growth Fund	100	92.7	6 459	3 404
Momentum MF Global Balanced A USD Fund	100	100	5 347	4 799
Momentum Enhanced Growth Fund of Funds	79.6	*	4 924	*
Momentum Money Market Fund	52.3	50.4	4 685	4 719
Momentum MoM Specialist Equity Fund	100	91.2	3 846	1 602
Momentum MoM Ultra Long-Term Value Fund	100	93.9	3 652	2 927
Momentum Bond Fund	94.6	87.0	3 369	1 487
Momentum Global Growth Fund IC Ltd	98.4	98.3	2 972	2 186
Momentum Value Equity Fund	100	100	2 526	2 293
Momentum Trending Equity Fund	100	88.1	2 357	904
Momentum Enhanced Yield Fund	34.8	***	2 181	***
Momentum MoM Opportunistic Equity Fund	100	***	2 111	***
Momentum MoM Macro Value Fund	100	100	2 078	2 156
Momentum MoM Property Equity Fund	100	99.9	2 046	2 097
Momentum MoM High Growth Fund	100	92.5	1 995	1 520
Momentum MoM Emerging Manager Growth Fund	100	100	1 883	1 700
Momentum IF Global Fixed Income A USD Fund	98.5	97.8	1 749	1 500
Momentum Real Growth Equity Fund *(previously Momentum Best Blend Specialist Equity Fund)*	39.7	63.7	1 696	741
Momentum SA Real Growth Property Fund	100	*	1 651	*
Momentum Property Fund	80.3	77.6	1 576	1 761
Momentum Enhanced Growth Plus Fund of Funds *(previously Momentum Factor 7 Fund of Funds)*	73.4	75.1	1 361	934
Momentum SA Flexible Fixed Interest Fund	94.6	*	1 345	*
Momentum IF Global Emerging Markets A USD Fund	97.5	98.0	1 224	1 042
Momentum International Equity Feeder Fund	67.2	*	1 214	*
Momentum MF Global Moderate Sub Fund	100	100	1 188	997
Momentum MoM Real Return Fund	100	100	1 152	1 155
Momentum Income Plus Fund	33.1	***	1 084	***
Momentum Enhanced Diversified Growth Fund of Funds *(previously Momentum Factor 5 Fund of Funds)*	65.2	63.7	1 021	764
Momentum Global Cautious Fund IC Ltd Class A	72.8	*	896	*
Momentum Best Blend Flexible Income Fund	58.1	79.4	818	837
Momentum Inflation Linked Bond Portfolio	94.2	*	792	*
Momentum MF International Equity A USD Fund	100	100	722	741
FGAM Global Growth Fund IC Ltd	62.6	*	604	*
Subtotal			93 732	60 577

Annexure A continued

Significant subsidiary companies

	Interest held		Carrying value	
	2018 %	2017 %	2018 Rm	2017 Rm
Subtotal carried forward			93 732	60 577
Perpetua MET Equity Fund	86.1	*	586	*
Momentum Enhanced Stable Growth Fund of Funds	59.0	*	510	*
Momentum Global Managed Fund IC Ltd	*	95.7	*	746
Momentum Balanced Fund	**	76.9	**	3 389
Truffle MET Institutional Equity Fund	**	76.2	**	1 975
Momentum Best Blend Balanced Fund of Funds	**	78.4	**	1 300
Momentum Best Blend Multifocus Fund of Funds	**	99.1	**	1 046
Ampersand SCI CPI Plus 4% Fund of Funds	**	62.3	**	898
Ampersand SCI Equity Fund	**	100	**	865
Ampersand SCI CPI Plus 2% Fund of Funds	**	53.0	**	840
Ampersand SCI Flexible Property Income Fund	**	100	**	628
Momentum Optimal Yield Fund	*	97.0	*	543
Saffron MET Inflation Linked Bond	**	99.9	**	516
VPFP International Growth Fund IC Ltd	****	70.6	****	515
			94 828	73 838

* This subsidiary was not considered to be significant in either the current or prior year.
** This subsidiary has been either disinvested or offboarded in the current year.
*** This subsidiary was part of CIS associates in the prior year.
**** No longer a subsidiary.

Fund name	Domicile
Momentum IF Global Equity Class A USD Fund	Luxembourg
Momentum MF Global Aggressive Sub Fund	Luxembourg
Momentum MF Global Balanced A USD Fund	Luxembourg
Momentum IF Global Fixed Income A USD Fund	Luxembourg
Momentum IF Global Emerging Markets A USD Fund	Luxembourg
Momentum MF Global Moderate Sub Fund	Luxembourg
Momentum MF International Equity A USD Fund	Luxembourg
Momentum Global Managed Fund IC Ltd	Guernsey
VPFP International Growth Fund IC Ltd	Guernsey
Momentum Global Cautious Fund IC Ltd Class A	Guernsey
FGAM Global Growth Fund IC Ltd	Guernsey
Momentum Global Growth Fund IC Ltd	Guernsey

Annexure B

Unconsolidated structured entities

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. This annexure provides information on significant unconsolidated structured entities in which the group holds an interest.

Collective investment schemes and other unit-linked investments
Unit-linked investments comprise local and foreign collective investment schemes as well as other unit-linked investments. Collective investment schemes are categorised into property, equity or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event of no one category meeting this threshold, it is classified as a mixed asset class. Money market collective investment schemes are categorised as such.

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the group is the policyholder of an investment contract issued by other insurance companies. Where the group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2018 Rm	2017 Rm
Collective investment schemes		
Local and foreign	**154 464**	139 867
Equity	**97 436**	92 854
Interest-bearing	**18 599**	20 304
Property	**3 627**	5 187
Mixed	**32 759**	19 325
Money market	**2 034**	2 188
Commodity	**9**	9
Other unit-linked investments	**11 724**	16 836
Local and foreign		
Equity	**3 105**	4 133
Interest-bearing	**2 506**	2 183
Mixed	**5 627**	9 601
Commodity	**486**	919
	166 188	156 703
Designated at fair value through income: unit-linked investments	**154 805**	141 654
Investments in associates designated at fair value through income	**11 383**	15 039
Available-for-sale: local unlisted quoted collective investment schemes	**–**	10
	166 188	156 703

Annexure B continued

Unconsolidated structured entities

Detail on investments in associates designated at fair value through income

The group holds a significant investment in the following associates designated at fair value through income:

2018	Carrying value Rm	% interest held	Nature of relationship	Principal place of business
Truffle SCI Institutional Equity Fund[1]	**2 154**	**76.6%**	**Standard investment**	**Sandton**
Ampersand SCI CPI Plus 2% Fund of Funds[1]	**777**	**48.0%**	**Standard investment**	**Sandton**
Ampersand SCI CPI Plus 4% Fund of Funds[1]	**705**	**50.7%**	**Standard investment**	**Sandton**
2017				
Fairtree Equity Prescient Fund	2 487	55.9%	Standard investment	Bellville
Nedgroup Investments XS Diversified Fund of Funds	1 662	34.4%	Standard investment	V&A Waterfront
Momentum Enhanced Yield Fund	1 483	26.6%	Standard investment	Sandton

Summarised financial information relating to the associates above:

2018	Truffle SCI Institutional Equity Fund[1] Rm	Ampersand SCI CPI Plus 2% Fund of Funds[1] Rm	Ampersand SCI CPI Plus 4% Fund of Funds[1] Rm
Current assets	**89**	**47**	**30**
Non-current assets	**2 733**	**1 574**	**1 362**
Current liabilities	**11**	**1**	**1**
Non-current liabilities	**2 811**	**1 620**	**1 392**
Revenue	**93**	**64**	**42**
Earnings	**168**	**696**	**747**
2017	**Fairtree Equity Prescient Fund Rm**	**Nedgroup Investments XS Diversified Fund of Funds Rm**	**Momentum Enhanced Yield Fund Rm**
Current assets	150	34	103
Non-current assets	4 358	4 836	5 768
Current liabilities	58	57	295
Non-current liabilities	4 450	4 812	5 576
Revenue	46	175	41
Earnings	37	169	38

[1] These associates formed part of CIS subsidiaries in the prior year. Refer to Annexure A.

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the group holds an interest:

Name of entity	Investment type	Nature and purpose of business	How is the entity financed?	Carrying value[1] 2018 Rm	Carrying value[1] 2017 Rm	Income received[2] 2018 Rm	Income received[2] 2017 Rm
Thekwini Fund 14 (RF) Ltd	Floating rate note/vanilla bonds	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**527**	514	**1**	6
South African Securitisation Programme (RF) Ltd	Floating rate note	Securitisation of rental and lease financed assets set up by Sasfin, Sunlyn and other entities approved by Sasfin	Funding received from the South African capital market	**680**	*	**54**	*
Thekwini Fund 13 (RF) Ltd	Floating rate note/fixed rate notes	Residential Mortgage Backed Securities Programme set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**516**	*	**46**	*
Superdrive Investments (RF) Ltd	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	**861**	755	**72**	(38)
				2 584	1 269	**173**	(32)

* This listed securitisation was not considered significant in the prior year.

1 Included in securities designated at fair value through income in the statement of financial position. The carrying value represents the group's maximum exposure.

2 Consists of interest income and fair value gains/(losses).

3 The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

Annexure C

Abbreviations and definitions

Abbreviations

ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
B-BBEE	Broad-based black economic empowerment
BSA	Bonus stabilisation accounts
CAR	Capital adequacy requirement
CGU	Cash-generating unit
DCF	Discounted cash flow
DPF	Discretionary participation features
ESA	Employer Surplus Account
EV	Embedded value
FCTR	Foreign Currency Translation Reserve
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSV	Financial soundness valuation
FTSE	Financial Times Stock Exchange
GCR	Global Credit Ratings
GLTD	Group long-term disability table
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IFS	Insurer Financial Strength
JSE	Johannesburg Stock Exchange
KTH	Kagiso Tiso Holdings (Pty) Ltd
MHC	Metropolitan Health Corporate (Pty) Ltd
MMI or "the group"	MMI Holdings Ltd and its subsidiaries
MMIGL	MMI Group Ltd
MMISI	MMI Strategic Investments (Pty) Ltd
NSX	Namibian Stock Exchange
OTC	Over-the-counter
PA	Prudential Authority
PPFM	Principles and practices of financial management
PVP	Present value of future premiums
RDR	Risk discount rate
RMI	Rand Merchant Insurance Holdings Ltd
ROEV	Return on Embedded Value
S&P	Standard & Poor's
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SARB	South African Reserve Bank
SENS	Stock Exchange News Service
SPV	Special purpose vehicle
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 the Standards of Actuarial Practice (SAP) 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

Capitation contracts

Capitation contracts are those under which the group accepts significant health benefit risk from medical schemes (the contract holder) by agreeing to indemnify the scheme against a defined set of the scheme benefits (the covered event) in return for a capitation fee.

Carry positions

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

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

Cash generating units (CGUs)

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

Annexure C continued

Abbreviations and definitions

Definitions *continued*

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

Cell captive arrangements include:

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

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

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

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

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

Definitions *continued*

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

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

Discretionary participation feature (DPF)
A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

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

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

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

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

- the ANW of covered and non-covered business;
- plus the VIF less the opportunity cost of required capital; and
- plus the write-up to directors' value of non-covered business.

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

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

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

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

Annexure C continued

Abbreviations and definitions

Definitions *continued*

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

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

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

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

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

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

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

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

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

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

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

Definitions *continued*

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

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

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

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

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

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

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

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

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

Annexure C continued

Abbreviations and definitions

Credit risk definitions

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

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

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

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

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

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

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

Annexure D

Significant group accounting policies

1 New IFRS standards and amendments

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the group

- IAS 40 (Amendment) – Transfers of investment property (effective from annual periods beginning on or after 1 January 2018).
- IFRS 4 (Amendment) – Implementation of IFRS 9 (effective from annual periods beginning on or after 1 January 2018).
- IFRS 15 – Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2018).
- IFRS 15 (Amendment) – Revenue from contracts with customers – clarification of guidance (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 (Amendment) – Financial instruments: hedge accounting (effective from annual periods beginning on or after 1 January 2018).
- IFRS 2 (Amendment) – Classification and measurement of certain share-based payment transactions (effective from annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign currency transactions and advance consideration (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 (Amendment) – Financial instruments: prepayment features with negative compensation and modification of financial liabilities (effective from annual periods beginning on or after 1 January 2019).
- IFRS 16 – Leases (effective from annual periods beginning on or after 1 January 2019).
- IAS 28 (Amendment) – Investments in associates and joint ventures: long-term interests in associates and joint ventures (effective from annual periods beginning on or after 1 January 2019).
- IAS 19 (Amendment) – Employee Benefits: Accounting for plan amendment, curtailment or settlement (effective from annual periods beginning on or after 1 January 2019).
- IFRIC 23 – Uncertainty over income tax treatments (effective from annual periods beginning on or after 1 January 2019).
- IASB revision of the Conceptual Framework (effective from annual periods beginning on or after 1 January 2020).
- IFRS 17 – Insurance contracts (effective from annual periods beginning on or after 1 January 2021).
- IFRS 10 and IAS 28 (Amendments) – Sale or contribution of assets between an investor and its associate or joint venture (postponed).

Improvements project amendments

- IFRS 1 – First-time adoption of IFRS (effective from annual periods beginning on or after 1 January 2018).
- IAS 28 – Investments in associates and joint ventures (effective from annual periods beginning on or after 1 January 2018).
- IFRS 3 – Business combinations (effective from annual periods beginning on or after 1 January 2019).
- IFRS 11 – Joint arrangements(effective from annual periods beginning on or after 1 January 2019).
- IAS 12 – Income taxes (effective from annual periods beginning on or after 1 January 2019).
- IAS 23 – Borrowing costs (effective from annual periods beginning on or after 1 January 2019).

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

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group

IFRS 9 Financial Instruments
The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, which replaces IAS 39 Financial Instruments: *Recognition and Measurement* effective from periods beginning on or after 1 January 2018.

In September 2016, the IASB published an amendment to IFRS 4 Insurance Contracts which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial Instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'.

Significant group accounting policies

1 New IFRS standards and amendments *continued*

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group *continued*

IFRS 9 Financial Instruments continued

The group will not defer the implementation of IFRS 9 and the standard will be applied retrospectively from 1 July 2018, without restating comparative figures. Opening retained earnings as at 1 July 2018 will be 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 loss impairment model and (c) hedge accounting including removing some of the restrictions on applying hedge accounting in IAS 39.

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVPL)

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, loans and receivables and available-for-sale.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and to sell. Despite the business model outcome, an entity may, at initial recognition, designate a financial asset at FVPL to eliminate or significantly reduce any accounting mismatch that would arise from measuring financial assets and liabilities on different bases.

Investments in equity instruments, including derivatives which are held for trading, are required to be measured at fair value. Changes in fair value of all equity instruments and derivative instruments are recognised in profit or loss. At initial recognition, an irrevocable election maybe made to present subsequent changes for an equity instrument not held for trading in other comprehensive income. For these assets the cumulative gain or loss recognised in other comprehensive income is not reclassified to profit or loss, but rather reclassified within equity.

No significant changes were introduced for the classification and measurement of financial liabilities, except for financial liabilities that are measured under the fair value option 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 group has assessed the estimated impact that the initial application will have on its financial statements based on the composition of the group's statement of financial position as at 30 June 2017. The majority of the group's debt instruments that are currently classified as designated at FVPL will satisfy the IFRS 9 conditions for classification as at FVPL; hence, the group does not expect any material changes to the accounting for these assets.

1 New IFRS standards and amendments *continued*

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group *continued*

The other financial assets held by the group include:

- equity investments currently measured at FVPL which will continue to be measured on the same basis under IFRS 9, and
- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

The standard has introduced a new expected credit loss (ECL) impairment model that will require more timely recognition of ECLs than under IAS 39. An impairment loss may 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 new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

The majority of the group's financial assets will not be subjected to the new impairment model based on their measurement remaining at FVPL. The potential significant impacts from changes in the measurement basis of impairment provisions are limited to the group's assets currently classified as held-to-maturity and loans and receivables which are carried at amortised cost.

Based on ongoing assessments the estimated adjustment (net of tax) to opening retained earnings on 1 July 2018 is unlikely to be more than R100 million due to an increase in the impairment provision based on the new ECL model.

All insurance and reinsurance receivables are recognised in terms of IFRS 4 and will be included in the IFRS 17 assessment.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 is effective from periods beginning on or after 1 January 2018. 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 standard is effective and will be implemented by the group from 1 July 2018. The group will apply the standard retrospectively with the cumulative effect of initial application recognised in opening retained earnings at 1 July 2018. Accordingly, the group will not restate comparative figures.

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 group has performed an assessment to determine the potential impact of the new standard on the group's financial statements. Based on the current assessment, the impact on the financial statements is not expected to be material.

IFRS 17 Insurance contracts
IFRS 17 will replace IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2021. The effective date for MMI with a financial reporting cycle of 1 July to 30 June is 1 July 2021 (ie 30 June 2022 financial statements will be the first full year results presented on an IFRS 17 basis only and 31 December 2021 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.

During the course of the financial year, developments have been focused on the main SA life license, where the most significant impacts are expected. These efforts will be leveraged across other licenses and geographies. MMI's financial reporting infrastructure will also be enhanced to support the efficient production of IFRS 17 in due course. MMI is actively participating in a number of industry forums to ensure that the standard is interpreted and applied appropriately and consistently.

Significant group accounting policies

2 Consolidation

2.1 Subsidiaries

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

Initial measurement

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

Disposals

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

Transactions with non-controlling interest shareholders

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

Measurement – MMI Holdings Ltd separate financial statements

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

2 Consolidation *continued*

2.2 Associates

Associates are all entities over which the group has *significant influence* but not control. The group's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the group.

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

Measurement

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

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

Impairment

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

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

2.3 Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Measurement

Interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

Significant group accounting policies

3 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent.

Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities, measured at fair value through income, are recognised as part of their fair value gain or loss.

Subsidiary undertakings

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

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

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

4 Intangible assets

4.1 Goodwill

Recognition and measurement

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

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

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

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

Impairment

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

4 Intangible assets *continued*

4.2 Value of in-force business acquired

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

Measurement

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

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

Impairment

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

4.3 Customer relationships

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

Measurement

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

Impairment

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

4.4 Deferred acquisition costs (DAC)

On long-term investment business

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

On short-term insurance business

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

Impairment

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

4 Intangible assets *continued*

4.5 Brand and broker network

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

Measurement

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

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

Impairment

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

4.6 Computer software

Recognition and measurement

Acquired computer software

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

Internally developed computer software

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

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

Impairment

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

5 Owner-occupied properties

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

Measurement

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

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

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

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

Depreciation

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

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

Disposals

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

6 Investment properties

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

Measurement

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

6 Investment properties *continued*

Measurement *continued*

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

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

Transfers to and from investment properties

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

Properties held under operating leases

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

Gains and losses

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

7 Financial assets

Classification

The group classifies its financial assets into the following main categories:

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

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

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

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

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

- **Loans and receivables**
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

7 Financial assets *continued*

Recognition and measurement

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

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

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Realised and unrealised gains and losses

Financial assets at fair value through income

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

Annexure D continued

Significant group accounting policies

7 Financial assets *continued*

Offsetting

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

Scrip lending

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

8 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

8 Derivative financial instruments and hedging activities *continued*

Fair value hedges

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

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

Derivatives that do not qualify for hedge accounting

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

9 Cash and cash equivalents

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

10 Long and short-term insurance and investment contracts

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

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

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

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

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

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these arrangements, only fee income, investment income and net realised and fair value gains are included in the group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

10 Long and short-term insurance and investment contracts *continued*

Classification of contracts *continued*

Insurance contracts

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

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

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

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

Contracts with DPF

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

Long-term insurance contracts and investment contracts with DPF

Measurement

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

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

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

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

10 Long and short-term insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Measurement *continued*

- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and Group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- Provision is made for the estimated cost of incurred but not yet reported (IBNR) claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported claims are disclosed in other payables.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

Compulsory and discretionary margins

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

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

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

10 Long and short-term insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Embedded derivatives

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

Liability adequacy test

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

Reinsurance contracts held

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

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

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

10 Long and short-term insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Reinsurance contracts held *continued*

Impairment of reinsurance assets

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

Long-term insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

Investment contracts

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

Measurement

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

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

10 Long and short-term insurance and investment contracts *continued*

Investment contracts *continued*

Measurement *continued*

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

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

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

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

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

Deferred revenue liability (DRL)

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

Deferred acquisition costs

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

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

Short-term insurance contracts

Premiums

Short-term insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

10 Long and short-term insurance and investment contracts *continued*

Short-term insurance contracts *continued*

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out in Directive 169 of 2011:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for IBNR claims at year-end, using the prescribed percentages specified by class of business and development period as set out in Directive 169.

11 Financial liabilities

Recognition and measurement

The group classifies its financial liabilities into the following categories:

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

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

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

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

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

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

  – eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  – managed, with their performance being evaluated on a fair value basis; or
  – a financial instrument that includes a significant embedded derivative that clearly require bifurcation.

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

Significant group accounting policies

11 Financial liabilities *continued*

Recognition and measurement *continued*

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

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

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

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

Financial liabilities designated at fair value through income

Financial liabilities designated at fair value through income, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below), preference shares and collective investment schemes liabilities (representing the units in collective investment schemes where the group consolidates the collective investment schemes and is required to disclose the value of the units not held by the group as liabilities) are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Interest on the callable notes, carry positions and preference shares are disclosed separately as finance costs using the *effective interest rate method*.

Carry positions

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

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

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

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

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

11 Financial liabilities *continued*

Recognition and measurement *continued*

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

Convertible redeemable preference shares and convertible bonds

Compound financial instruments issued by the group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. At initial recognition, the fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The dividends on these preference shares are recognised in the income statement in finance costs.

Other payables

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

12 Deferred income tax

Measurement

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

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

Deferred tax related to fair value remeasurement of post-employment benefit obligations, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

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

Offsetting

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

Annexure D continued

Significant group accounting policies

13 Current taxation

Measurement

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

Offsetting

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

Dividend withholding tax (DWT)

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

14 Indirect taxation

Indirect taxes include various other taxes paid to central and local governments, including value added tax (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

15 Leases: Accounting by lessee

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the group are classified as finance leases.

Measurement

- **Asset**
  Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.

- **Liability**
  The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

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

16 Leases: Accounting by lessor

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

17 Contingent liabilities

Contingent liabilities are reflected when the group has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

18 Employee benefits

Post-retirement medical aid obligations

The group provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment. 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 group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

The group operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the group measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

18 Employee benefits *continued*

Share-based compensation *continued*

The group recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

Compensation plans valued on the projected unit credit method

The group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable EV of a subsidiary company, and that will be used to settle the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

19 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group’s primary business being the provision of insurance and investment products, non-current assets held as investments for the benefit of policyholders are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

20 Share capital

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

Issue costs

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

Treasury shares

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

21 Dividends paid

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

22 Puttable non-controlling interests

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

Recognition and measurement

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

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

23 Income recognition

Income comprises the fair value of services, net of value added tax, after eliminating income from within the group. Income is recognised as follows:

23.1 Fee income

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Front-end fees are deferred and released to income when the services are rendered over the expected term of the contract on a straight-line basis.

Annexure D continued

Significant group accounting policies

23 Income recognition *continued*

23.1 Fee income *continued*

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the group are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered.

Cell captive fee income includes management fees. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered.

23.2 Investment income

Interest income

Interest income is recognised in the income statement, using the *effective interest rate method* and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

Dividend income

Dividends received are recognised when the right to receive payment is established. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro rata number of shares, there is no change in economic interest of any investor and 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.

24 Expense recognition

24.1 Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

24.2 Finance costs

Finance costs are recognised in the income statement, using the *effective interest rate method*, and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

25 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the MMI executive committee that makes strategic decisions. Refer to segmental report for more details.

Annexure E

Valuation techniques

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

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

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

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

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

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

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to note 6.8 for details of the instruments split into the different levels.

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

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

Annexure E continued

Valuation techniques

There were no significant changes in the valuation methods applied since the prior year.

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

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Securities designated at fair value through income				
Equity securities				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
	Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities				
Stock and loans to government and other public bodies				
Unlisted	DCF	Nominal interest rate	8.00% to 11.31% (2017: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments				
Foreign listed	Mark to model	Adjustments to market-related inputs	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value

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

Financial assets *continued*	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Debt securities continued				
Other debt instruments continued				
Unlisted	DCF	Nominal interest rate	7.56% to 11.43% (2017: 7.82% to 11.35%); 6.90% to 15.12% (2017: 7.16% to 13.98%)	The higher the nominal interest rate, the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Unit-linked investments				
Collective investment schemes				
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
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

Annexure E continued

Valuation techniques

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

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

There were no significant changes in the valuation methods applied since the prior year.

Annexure F

Cash-settled arrangements valuation assumptions

Valuation assumptions relating to outstanding units at 30 June:

MMI LTIP	Units granted during the current year				
	Retention units		Performance units		
2018	17th tranche	18th tranche	17th tranche	18th tranche	19th tranche
Award date	**01-Oct-17**	**01-Apr-18**	**01-Oct-17**	**01-Apr-18**	**09-Apr-18**
Vesting date	**01-Oct-20**	**01-Apr-21**	**01-Oct-20**	**01-Apr-21**	**31-Oct-21**
Outstanding units (thousands)	**12 727**	**247**	**14 751**	**1 046**	**1 246**
Valuation assumptions include:					
Outstanding tranche period in years	**2.25**	**2.75**	**2.25**	**2.75**	**3.34**
Take-up rate on units outstanding	**82%**	**82%**	**82%**	**82%**	**100%**
Current vesting rate	**100%**	**100%**	**100%**	**100%**	**100%**
Adjusted share price, adjusted for future dividends and past special distributions	**R 17.67**	**R 17.67**	**R 17.67**	**R 17.67**	**R 17.67**

	Retention units			Performance units	
2017	14th tranche	15th tranche	16th tranche	15th tranche	16th tranche
Award date	25-Sep-16	1-Oct-16	1-Apr-17	1-Oct-16	1-Apr-17
Vesting date	25-Sep-18	1-Oct-19	1-Apr-20	1-Oct-19	1-Apr-20
Outstanding units (thousands)	150	7 503	214	9 095	465
Valuation assumptions include:					
Outstanding tranche period in years	1.24	2.25	3.75	2.25	3.75
Take-up rate on units outstanding	88%	82%	82%	82%	82%
Current vesting rate	100%	100%	100%	30%	30%
Adjusted share price, adjusted for future dividends and past special distributions	R20.24	R20.24	R20.24	R20.24	R20.24

Vesting rate assumptions regarding performance units in the table above

As stated on page 212, the performance units in the MMI LTIP are subject to performance criteria. These performance criteria have been set as detailed in the Remuneration Report set out on page 100 of this integrated report.

Long-term Incentive Plan (LTIP)

The performance criterion under the LTIP compares MMI'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 2018 was calculated on an assumption of zero vesting of performance units issued October 2015 (vesting October 2018), 30% vesting of units issued in 2016 (maturing 2019) and 100% vesting for units issued in 2017 (maturing 2020).

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 2018. An additional two percentage points increase in the future ROEV is expected to result in additional vesting of 3.5% of affected performance units under the LTIP, at an expected cost of R12 million. At the current point in time, and taking into account historic performance to date (30 June 2018), the LTIP liability is relatively insensitive to modest improvements in ROEV.

Cash-settled arrangements valuation assumptions

Vesting rate assumptions regarding performance units in the table above *continued*

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 4 to 5 years, measured from 2014 (maturing 2018 and 2019).

As at 30 June 2018, it was estimated that none of the OPP performance units maturing in 2018 will vest, and only 10% of units maturing in 2019.

For a two percentage point increase in the future return on embedded value, it is estimated that 17% of OPP units maturing in 2019 will vest. At the current share price (30 June 2018) this represents an additional cost of R3.5 million, compared to the "base" expectation of 10% vesting in 2019.

MSPS 2018	22nd tranche	23rd tranche	24th tranche
Award date	01-Nov-17	01-Nov-17	01-Nov-17
Vesting date	01-Nov-20	01-Nov-21	01-Nov-22
Outstanding units (thousands)	364	364	364
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%
2017	**19th tranche**	**20th tranche**	**21st tranche**
Award date	1-Nov-16	1-Nov-16	1-Nov-16
Vesting date	1-Nov-19	1-Nov-20	1-Nov-21
Outstanding units (thousands)	542	542	542
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

Tranches vested during the current or prior year

MMI LTIP: The fourth tranche was settled in October 2016 at R22.50 per share totalling R210 million.
MMI LTIP: The fifth tranche was settled in March 2017 at R25.00 per share totalling R28 million.
MMI LTIP: The sixth tranche was settled in May 2017 at R22.81 per share totalling R11 million.
MMI LTIP: The eighth tranche was settled in October 2017 at R18.47 per share totalling R189 million.
MMI LTIP: The ninth tranche was settled in April 2018 at R22.15 per share totalling R1 million.
MMI LTIP: The tenth tranche was settled in September 2017 at R19.88 per share totalling R10 million.
MMI LTIP: Ad hoc payments totalling R8.2 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R120 million (2017: R225 million) for the group and is disclosed under employee benefit expenses in note 23.

Annexure G

Additional information

Analysis of assets managed and/or administered[1]	2018 Rm	Restated 2017 Rm
Managed and/or administered by Investments		
Financial assets	418 540	414 070
Momentum Manager of Managers[2]	88 943	86 757
Momentum Investment Consultants[2]	5 850	4 956
Momentum Collective Investments	82 157	72 667
Metropolitan Collective Investments	120	19 860
Momentum Asset Management	152 247	151 241
Momentum Global Investments	60 476	55 724
Momentum Alternative Investments	6 278	6 390
Momentum Securities[2]	22 469	16 475
Properties – Eris Property Group	21 859	21 307
On-balance sheet	8 346	8 778
Off-balance sheet	13 513	12 529
Momentum Wealth linked product assets under administration	160 839	151 203
On-balance sheet	104 327	97 082
Off-balance sheet	56 512	54 121
Managed internally or by other managers within MMI (on-balance sheet)	71 097	67 399
Managed by external managers (on-balance sheet)	16 543	15 144
Properties managed internally or by other managers within MMI or externally	4 268	2 778
Momentum Corporate – cell captives on-balance sheet	16 575	15 508
Total assets managed and/or administered	709 721	687 409
Managed and/or administered by Investments		
On-balance sheet	231 035	223 792
Off-balance sheet	187 505	190 278
	418 540	414 070

1 Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.
2 Restatements relate primarily to the inclusion of Momentum Securities, as well as the removal of double-counted CIS assets.

Annexure G continued

Additional information

Net funds received from clients[1] 12 mths to 30.06.2018	Gross single inflows Rm	Gross recurring inflows Rm	Gross inflow Rm	Gross outflow Rm	Net inflow/ (outflow) Rm
Momentum Retail	15 074	9 938	25 012	(25 045)	(33)
Metropolitan Retail	1 304	6 064	7 368	(5 660)	1 708
Momentum Corporate	9 920	18 642	28 562	(30 002)	(1 440)
International	612	3 751	4 363	(2 714)	1 649
Long-term insurance business fund flows	26 910	38 395	65 305	(63 421)	1 884
Off-balance sheet fund flows					
Managed and/or administered by Investments			70 861	(81 246)	(10 385)
Properties – Eris Property Group			1 819	(835)	984
Momentum Wealth linked product assets under administration			7 545	(9 280)	(1 735)
Total net funds received from clients			145 530	(154 782)	(9 252)
Restated					
12 mths to 30.06.2017					
Momentum Retail	15 077	9 663	24 740	(25 360)	(620)
Metropolitan Retail	1 021	5 877	6 898	(5 321)	1 577
Momentum Corporate	10 216	16 951	27 167	(25 574)	1 593
International	654	3 476	4 130	(2 624)	1 506
Long-term insurance business fund flows	26 968	35 967	62 935	(58 879)	4 056
Off-balance sheet fund flows					
Managed and/or administered by Investments[2, 3]			66 343	(102 076)	(35 733)
Properties – Eris Property Group			2 067	(8 350)	(6 283)
Momentum Wealth linked product assets under administration			7 368	(10 081)	(2 713)
Momentum Corporate – segregated assets			–	(216)	(216)
Total net funds received from clients			138 713	(179 602)	(40 889)

[1] Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.
[2] The Aluwani assets were transferred to Aluwani in the prior year.
[3] Restatements relate primarily to the inclusion of Momentum Securities, as well as the removal of double-counted CIS assets.

Analysis of assets backing shareholder excess	2018 Rm	2018 %	2017 Rm	2017 %
Equity securities	**411**	**1.8**	441	1.9
Preference shares	**1 456**	**6.5**	1 325	5.8
Collective investment schemes	**367**	**1.6**	330	1.4
Debt securities	**6 833**	**30.6**	6 762	29.5
Properties	**3 479**	**15.6**	3 630	15.8
Owner-occupied properties	**2 426**	**10.9**	2 374	10.3
Investment properties	**1 053**	**4.7**	1 256	5.5
Cash and cash equivalents and funds on deposit	**5 927**	**26.5**	6 003	26.2
Intangible assets	**6 653**	**29.8**	7 144	31.1
Other net assets	**2 122**	**9.5**	1 537	6.7
	27 248	**122.0**	27 172	118.4
Redeemable preference shares	**(254)**	**(1.1)**	(261)	(1.1)
Subordinated redeemable debt	**(4 374)**	**(19.6)**	(3 602)	(15.7)
Treasury shares	**(292)**	**(1.3)**	(353)	(1.5)
Shareholder excess per reporting basis	**22 328**	**100.0**	22 956	100.0

Number of employees	2018	2017
Indoor staff	**9 350**	9 199
SA	**8 099**	7 984
International	**1 251**	1 215
Field staff	**7 585**	8 031
Momentum Retail	**1 038**	1 130
Metropolitan Retail	**4 535**	5 395
International	**2 012**	1 506
Total	**16 935**	17 230

Shareholder profile

Shareholder	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors	12	0.6	9
Kagiso Tiso Holdings (Pty) Ltd	2	7.3	114
RMI Holdings Ltd	1	25.8	401
Government Employees Pension Fund	8	7.4	115
Public			
Private investors	17 271	2.2	34
Pension funds	272	6.6	103
Collective investment schemes and mutual funds	2 581	46.5	724
Banks and insurance companies	120	3.6	57
Total	20 267	100.0	1 557

An estimated 399 million shares (2017: 403 million shares) representing 25.6% (2017: 25.1%) of total shares are held by foreign investors.

Size of shareholding	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 – 5 000	17 312	85.4	14	0.9
5 001 – 10 000	1 032	5.1	8	0.5
10 001 – 50 000	1 049	5.2	23	1.5
50 001 – 100 000	252	1.3	18	1.2
100 001 – 1 000 000	474	2.3	156	10.0
1 000 001 and more	148	0.7	1 338	85.9
Total	20 267	100.0	1 557	100.0

Beneficial owners	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	25.8
Government Employees Pension Fund	115	7.4
Kagiso Tiso Holdings (Pty) Ltd	114	7.3
Total	630	40.5

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2018, are disclosed.

Stock exchange performance

	2018	2017
12 months		
Value of listed shares traded (rand million)	**17 396**	20 072
Volume of listed shares traded (million)	**853**	863
Shares traded (% of average listed shares in issue)	**56**	55
Trade prices		
Highest (cents per share)	**2 424**	2 669
Lowest (cents per share)	**1 673**	1 920
Last sale of year (cents per share)	**1 767**	2 024
Percentage (%) change during year	**(13)**	(11)
Percentage (%) change – life insurance sector (J857)	**10**	(6)
Percentage (%) change – top 40 index (J200)	**13**	(1)
30 June		
Price/diluted core headline earnings (segmental) ratio	**10.0**	10.1
Dividend yield % (dividend on listed shares)	**–**	7.8
Dividend yield % – top 40 index (J200)	**2.8**	2.8
Total shares issued (million)		
Ordinary shares listed on JSE	**1 529**	1 575
Treasury shares held on behalf of contract holders	**(17)**	(18)
Basic number of shares in issue	**1 512**	1 557
Treasury shares held on behalf of contract holders	**17**	18
Convertible redeemable preference shares	**28**	29
Diluted number of shares in issue[1]	**1 557**	1 604
Market capitalisation at end (Rbn)[2]	**28**	32

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

2 The market capitalisation is calculated on the fully diluted number of shares in issue.

Shareholder diary

Financial year-end	30 June 2018	
Reporting	Interim results	7 March 2018
	Trading update for the 9 months to March 2018	24 May 2018
	Announcement of year-end results	5 September 2018
	Annual report published	28 September 2018
	Trading update for the 3 months to September 2018	23 November 2018
	Annual general meeting	26 November 2018

Notice of annual general meeting

Notice to shareholders of the 17th (seventeenth) annual general meeting of MMI Holdings Ltd (MMI or the company)

Notice is hereby given that the 17th (seventeenth) annual general meeting (AGM) of the shareholders of the company, for the year ended 30 June 2018, will be held at 12:00 on Monday, 26 November 2018, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion (the AGM notice). Registration for attendance at the AGM will commence at 11:00 on 26 November 2018.

This notice is important and requires your immediate attention

If you are in any doubt about what action you should take, consult your broker, Central Securities Depository Participant (CSDP), banker, financial adviser, accountant or other professional adviser immediately.

If you have disposed of all your shares in MMI, please forward this document, together with the enclosed form of proxy, to the purchaser of such shares or the broker, banker or other agent through whom you disposed of such shares.

Included in this notice are the following:

- The resolutions to be proposed at the meeting, together with explanatory notes. There are also guidance notes if you wish to attend the meeting or to vote by proxy.
- A proxy form for completion, signature and submission to the transfer secretaries of the company by shareholders holding MMI ordinary shares in certificated form or recorded in sub-registered electronic form in "own name".

Electronic participation in the AGM

Please note that the company intends to make provision for shareholders of MMI, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so in the manner and form set out below. In this regard, video-conferencing facilities will only be made available in the Kilimanjaro VC Room, 1st Floor, Parc du Cap Building 7, Mispel Road, Bellville, Cape Town.

Should you wish to participate in the AGM electronically, you or your proxy are required to confirm your attendance and participation at the Bellville location by delivering written notice to the company, at the address detailed hereunder, by no later than 16:00 on Monday, 19 November 2018. The above-mentioned facility will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 19 November 2018 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention in writing, this facility will not be available on the date of the AGM. Please note that the cost of the video-conferencing facility will be for the account of the company.

Please also note the important provisions regarding identification of shareholders attending the AGM, the appointment of proxies and voting detailed on page 354 of this AGM notice.

Record date and last day to trade

The MMI Board of Directors (the Board) has determined that the record date for the purpose of determining which shareholders of the company are entitled to receive this notice is Friday, 21 September 2018, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 16 November 2018. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 16 November 2018, will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote at the AGM will therefore be Tuesday, 13 November 2018.

Business to be transacted

The purpose of the AGM is for the following business to be transacted:

- Presentation of the report of the Board.
- Presentation of the Audit Committee's report.
- Verbal report from the Chairman of the Social, Ethics and Transformation Committee (a full copy of this report can be found on pages 356 to 359).
- Presentation of the annual financial statements of the company for the financial year ended 30 June 2018. (Should you require a complete copy of the annual financial statements for the preceding financial year, this can be accessed on the MMI website **www.mmiholdings.com**.)

Notice of annual general meeting continued

- To consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out below.
- To transact such other business as may be transacted at an AGM.

For each ordinary resolution to be adopted, it must be supported by at least 50% (fifty percent) plus 1 (one) of the voting rights exercised on the resolution, unless a higher requirement has been prescribed in terms of the Listings Requirements of the JSE Ltd (the Listings Requirements).

For each special resolution to be adopted, it must be supported by at least 75% (seventy five percent) of the voting rights exercised on the resolution.

1 Ordinary resolution number 1

Election of directors appointed by the board

1.1 Mr Risto Sakari Ketola was appointed by the Board with effect from 16 January 2018. In accordance with the Companies Act, 71 of 2008, as amended (the Act) and the Memorandum of Incorporation of the company (the MOI), Mr Ketola resigns and, being available, has offered himself for election by shareholders of the company. His brief curriculum vitae is presented on the MMI website **www.mmiholdings.com** and also appears on page 78 of the Integrated Report (IR).

Mr Ketola's performance and contribution were assessed by the MMI Nominations Committee on behalf of the Board, and the Board recommends Mr Ketola's election as a director of the company. The Audit Committee has also considered and satisfied itself as per the JSE Listings Requirements 3.84(g)(i) of the appropriateness of the expertise and experience of the finance director. Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Mr Ketola as a director of the company.

"Resolved as an ordinary resolution that Mr Ketola be and is hereby elected as a director of the company with effect from 16 January 2018."

1.2 Mr Hilgard Pieter Meyer was appointed by the Board with effect from 15 February 2018. In accordance with the Act and the MOI of the company, Mr Meyer resigns and, being available, has offered himself for election by shareholders of the company. His brief curriculum vitae is presented on the MMI website **www.mmiholdings.com** and also appears on page 78 of the IR.

Mr Meyer's performance and contribution were assessed by the MMI Nominations Committee on behalf of the Board, and the Board recommends Mr Meyer's election as a director of the company. Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Mr Meyer as a director of the company.

"Resolved as an ordinary resolution that Mr Meyer be and is hereby elected as a director of the company with effect from 15 February 2018."

1.3 Ms Jeanette Christina Cilliers (Marais) was appointed by the Board with effect from 1 March 2018. In accordance with the Act and the MOI, Ms Cilliers (Marais) resigns and, being available, has offered herself for election by shareholders of the company. Her brief curriculum vitae is presented on the MMI website **www.mmiholdings.com** and also appears on page 78 of the IR.

Ms Cilliers' (Marais) performance and contribution were assessed by the MMI Nominations Committee on behalf of the Board, and the Board recommends Ms Cilliers (Marais)' election as a director of the company. Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Ms Cilliers (Marais) as a director of the company.

"Resolved as an ordinary resolution that Ms Cilliers (Marais) be and is hereby elected as a director of the company with effect from 1 March 2018."

Effect of ordinary resolution numbers 1.1 – 1.3

If ordinary resolution numbers 1.1 to 1.3 are passed, the effect will be that Mr Ketola, Mr Meyer and Ms Cilliers (Marais) will be appointed as directors of the company with effect from their respective appointment dates mentioned in the above resolutions.

2 Ordinary resolution number 2

Retirement by rotation and re-election of directors

In accordance with the MOI, at least one third of the non-executive directors of the company are required to retire by rotation as directors of the company at this AGM. In these circumstances Mr FJC Truter, Mr KC Shubane, Mr PJ Moleketi and Mr JC van Reenen retire by rotation in accordance with the MOI and, being eligible, all the aforementioned directors have offered themselves for re-election.

Brief curricula vitae of those directors standing for re-election are published on the MMI website **www.mmiholdings.com**. Accordingly, the shareholders are requested to consider and, if deemed fit, to re-elect those directors by way of passing the separate ordinary resolutions set out below:

Ordinary resolution 2.1

"Resolved as an ordinary resolution that Mr FJC Truter be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.2

"Resolved as an ordinary resolution that Mr KC Shubane be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.3

"Resolved as an ordinary resolution that Mr PJ Moleketi be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.4

"Resolved as an ordinary resolution that Mr JC van Reenen be and is hereby re-elected as a director of the company with immediate effect."

Effect of ordinary resolution number 2

If each ordinary resolution detailed in 2 above is passed, the effect will be that Mr FJC Truter, Mr KC Shubane, Mr PJ Moleketi and Mr JC van Reenen will be re-appointed as directors of the company with immediate effect.

For noting only: resignations and retirements

The shareholders are required to take note of the following resignations:

- Mr Wojciech Mareck Krzychylkiewicz with effect from 9 October 2017.
- Mr Nicolaas Abraham Stefanus Kruger with effect from 15 February 2018.
- Ms Mary Vilakazi with effect from 31 March 2018.

The shareholders are required to take note of the following retirements:

- Mr Benedict James van der Ross with effect from 24 November 2017.
- Mr Sydney Alan Muller with effect from 26 November 2018.

The Board wishes to thank the above past Board members for their participation and contribution to MMI.

Notice of annual general meeting continued

3 Ordinary resolution number 3

Re-appointment of external auditors

The Audit Committee has recommended the re-appointment of PricewaterhouseCoopers Inc. as auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner, for the ensuing financial year or until the next AGM, whichever is the later date. Accordingly, the shareholders are requested to consider and vote on the following resolution:

"Resolved as an ordinary resolution that the company hereby approves the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner, for the ensuing financial year or until the next AGM, whichever is the later date."

Effect of ordinary resolution number 3

If ordinary resolution number 3 is passed, the effect will be that PricewaterhouseCoopers Inc. will be re-appointed as auditors of the company, with Mr Andrew Graham Taylor as the designated audit partner, for the ensuing financial year or until the next AGM, whichever is the later date.

4 Ordinary resolution number 4

Appointment of the Audit Committee

The company is required to approve the appointment of the Audit Committee of the company. Accordingly, the shareholders are requested to consider and approve the appointment of the Audit Committee by way of passing the separate ordinary resolutions set out below. It is noted that Mr S Muller retires as a MMI director on 26 November 2018, and simultaneously as a member on the MMI Audit Committee. The Board has satisfied itself that all the Audit Committee members meet the provisions of the Act and that they are independent and therefore recommends their re-appointment.

Ordinary resolution 4.1

"Resolved as an ordinary resolution that the re-appointment of Mr FJC Truter as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.2

"Resolved as an ordinary resolution that the re-appointment of Mr LL von Zeuner as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.3

"Resolved as an ordinary resolution that the re-appointment of Mrs F Daniels (Jakoet) as a member of the Audit Committee be and is hereby approved with immediate effect."

Effect of ordinary resolution number 4

If each ordinary resolution detailed in 4 above is passed, the effect will be that Mr FJC Truter, Mrs F Daniels (Jakoet) and Mr LL von Zeuner will be re-appointed as the Audit Committee of the company.

5 Ordinary resolution number 5

Non-binding advisory vote on MMI Remuneration Policy

*"Resolved as an ordinary resolution that the shareholders consider, by way of a non-binding advisory vote, the company's Remuneration Policy which is available on the company's website **www.mmiholdings.com**."*

Effect of ordinary resolution number 5

In terms of principle 14 of the King IV Report on Corporate Governance™ for South Africa, 2016 (hereafter referred to as King IV™), the company's remuneration policy should be tabled to the shareholders to pass a non-binding advisory vote in the same manner as an ordinary resolution at the AGM. Accordingly, the resolution would be carried if the shareholders pass a non-binding advisory vote on the Remuneration Policy which appears on page 104 of the IR.

6 **Ordinary resolution number 6**

Non-binding advisory vote on MMI Implementation Report

"Resolved as an ordinary resolution that the shareholders consider, by way of a non-binding advisory vote, the company's Implementation Report which is available on the company's website ***www.mmiholdings.com****."*

Effect of ordinary resolution number 6

In terms of principle 14 of the King IV Report on Corporate Governance™ for South Africa, 2016 (hereafter referred to as King IV™), the company's Implementation Report should be tabled to the shareholders to pass a non-binding advisory vote in the same manner as an ordinary resolution at the AGM. Accordingly, the resolution would be carried if the shareholders pass a non-binding advisory vote on the implementation report which appears on page 111 of the IR.

7 **Appointment of director or company secretary to implement ordinary and special resolutions**

"Resolved as an ordinary resolution that any one director of the company or the company secretary be and is hereby authorised to take such steps, do all such things and sign all such documents as may be necessary or required for the purpose of implementing the ordinary and special resolutions proposed and passed at this meeting."

Effect of ordinary resolution number 7

If ordinary resolution number 7 is passed, the effect will be that any director of the company or the company secretary will be authorised to attend to the necessary in order to implement the ordinary and special resolutions passed at this meeting.

8 **Special resolution number 1**

Approval of directors' remuneration

In compliance with the provisions of section 66(9) of the Act and Regulations (as amended from time to time), the shareholders are required to approve the fees of the non-executive directors of the company. It is proposed that non-executive directors of the company will be paid a fixed annual fee for the services they render to the company as detailed in this special resolution number 1. The proposed directors' fees will not be dependent on attendance by the relevant Director of Board and committee meetings, and have been determined by the Remuneration Committee and approved by the Board. The Remuneration Committee has agreed that the current non-executive directors' fees be increased by 5.5%, effective retrospectively from 1 September 2018. There will be no increase in fees for members serving on the MMI Board governance Committees. Accordingly, the shareholders are requested to consider and vote on the following special resolution:

Special resolution 1: Non-executive directors' fees (NEDs)

"Resolved as a special resolution that the non-executive directors of the company shall be paid fees for services rendered (excluding VAT thereon, when applicable), in accordance with the scale of fees set out below with effect from 1 September 2018, and such scale of remuneration shall be valid until the company's next AGM, or such later period permitted in terms of the Act."

Notice of annual general meeting continued

		Current fees (excluding VAT)	Recommended fees (excluding VAT)
1.1	Chairperson of the Board	1 500 000	1 582 500
1.2	Deputy Chairperson of the Board	750 000	791 250
1.3	Board member	465 030	490 600
1.4	Chairperson of Audit Committee	387 730	387 730
1.5	Member	193 280	193 280
1.6	Chairperson of Actuarial Committee	322 510	322 510
1.7	Member	193 280	193 280
1.8	Chairperson of Remuneration Committee	322 510	322 510
1.9	Member	160 660	160 660
1.10	Chairperson of Risk, Capital and Compliance Committee	387 730	387 730
1.11	Member	193 280	193 280
1.12	Chairperson of Social, Ethics and Transformation Committee	258 500	258 500
1.13	Member	160 660	160 660
1.14	Chairperson of Nominations Committee	193 280	193 280
1.15	Member	96 640	96 640
1.16	Chairperson of Fair Practices Committee	258 500	258 500
1.17	Member	160 660	160 660
1.18	Chairperson of MMI Committee/Subsidiary Board*	258 500	272 700
1.19	Member of MMI Committee/Subsidiary Board*	160 660	169 500
1.20	*Ad hoc* work (hourly)	*The Board may, from time to time, call upon the services of NEDs to undertake additional work and the payment for such remuneration shall be a market-related hourly rate of R4 525.00, with the total maximum ad hoc hourly fees paid to all MMI directors (aggregated) in any given year shall not exceed R350 000.*	

* Official MMI Board Governance Committees, or Boards for certain business units/operational structures, established from time to time.

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

Reason for and effect of special resolution number 1

The reason for special resolution number 1 is to obtain shareholders' approval for payment by the company of non-executive directors' fees as determined by the Remuneration Committee and approved by the Board, and as detailed above. The passing of special resolution number 1 will have the effect that the company will be authorised to pay non-executive directors fees in accordance with the scale of fees and effective dates detailed above for the services rendered to the company as directors.

9 Special resolution number 2

General approval to provide financial assistance for subscription or purchase of securities in related or inter-related entities in terms of section 44 of the Companies Act

It is hereby noted that the company may from time to time provide financial assistance in terms of section 44 of the Act, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company (as contemplated in the Act, including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the affiliates), or for the purchase of any securities of the company or its affiliates, on such specific terms as may be authorised by the Board.

It is further noted that the Board shall not authorise any financial assistance contemplated in such special resolution unless the Board:

- Is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 44(3)(b)(i)).
- Is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 44(3)(b)(ii)).
- Is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the MOI have been satisfied (section 44(4)).

In compliance with the requirements of the Act, the Board is seeking a general authority from shareholders to cause the company to provide financial assistance for subscription and purchase of securities as set out in section 44 of the Act.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 44 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates (including, without limitation, the giving of a guarantee to any subscriber, holder or purchaser of preference shares in any affiliate, as security for such affiliate's obligations under such preference shares), as set out in section 44 of the Act, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the Board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide financial assistance as contemplated in section 44 of the Act, on such terms and conditions and for such amounts as the Board may determine."

Reason for and effect of special resolution number 2

The reason for special resolution number 2 is to grant the Board a general authority in terms of the Act to cause the company to provide financial assistance by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates, as set out in section 44 of the Act in such amounts and on such terms and conditions as may be determined by the Board. The passing of special resolution number 2 will have the effect that the Board will have the flexibility, subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance as set out in section 44 of the Act should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

10 Special resolution number 3

General approval to provide financial assistance to related or inter-related entities in terms of section 45 of the Companies Act

It is hereby noted that the company may from time to time provide financial assistance in terms of section 45 of the Act to persons who are related or inter-related (as contemplated in the Act) to the company (including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the affiliates), whether in the form of loans and/or loan facilities, guarantees and/or guarantee facilities, mortgages, pledges, cessions, bonds or otherwise, on such specific terms as may be authorised by the Board (collectively, for the purposes of this resolution, financial assistance).

It is further noted that the Board shall not authorise any financial assistance contemplated in such special resolution unless the Board:

- Is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 45(3)(b)(i)).
- Is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 45(3)(b)(ii)).
- Is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the MOI have been satisfied (section 45(4)).

In compliance with the requirements of the Act, the Board is seeking a general authority from shareholders to cause the company to provide such financial assistance to affiliates.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 45 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance to affiliates, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the Board may, subject to compliance with the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Act, on such terms and conditions and for such amounts as the Board may determine."

Reason for and effect of special resolution number 3

The reason for special resolution number 3 is to grant the Board a general authority in terms of section 45 of the Act to cause the company to provide financial assistance to any affiliate in such amounts and on such terms and conditions as may be determined by the Board. The passing of special resolution number 3 will have the effect that the Board will have the flexibility, subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance to affiliates should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

11 Special resolution number 4

General approval of share buy-back

It is hereby noted that the company and/or its subsidiaries may from time to time acquire securities issued by the company. In this regard, it is proposed that the company renew its general approval for a share buy-back with the following special resolution:

"Resolved as a special resolution that the company hereby approves, by way of a general approval, the repurchase by the company or any of its subsidiaries from time to time of shares issued by the company upon such terms and conditions and in such amounts as the Board may from time to time determine, but subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, and subject further to the following conditions:

- *Any acquisition in terms hereof may only be effected through the order book operated by the JSE trading system and may only be done without any prior understanding or arrangement between the company and the counterparty.*
- *The company is authorised thereto by its MOI.*
- *This general approval shall be valid only until the company's next AGM, provided that it does not extend beyond 15 (fifteen) months from the date of this resolution, during which time this general approval may be varied or revoked by special resolution passed at a general meeting of the company.*
- *Any such acquisitions of the company's shares shall be announced when an aggregate of 3% (three percent) of the initial number of shares of the relevant class has been purchased and for each 3% (three percent) in aggregate of the initial number of shares of that class acquired thereafter.*
- *In determining the price at which the ordinary shares are repurchased by the company or its subsidiary in terms of this general authority, the maximum price at which such shares may be repurchased will not be greater than 10% (ten percent) above the weighted average of the market value for such ordinary shares for the 5 (five) business days immediately preceding the date of repurchase of such shares.*
- *In the case of an acquisition by a subsidiary of the company of shares in the company under this general approval, such acquisition shall be limited to a maximum of 10% (ten percent) in aggregate of the number of issued shares of any class of shares of the company, taken together with all the shares held by all the subsidiaries of the company, at the time of such acquisition.*
- *The general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed a maximum of 15% (fifteen percent) of the company's issued shares of that class in any one financial year.*
- *The Board by resolution, authorises the repurchase, confirms that the company has passed the solvency and liquidity test detailed in the Act in relation to the repurchase of securities, and confirms that since the solvency and liquidity test was applied, there have been no material changes to the financial position of the company or the group.*
- *At any time, the company shall only appoint one agent to effect any acquisitions on the company's behalf in terms of this general approval.*
- *The company or its subsidiaries may not acquire the company's shares during a prohibited period as defined in terms of the Listings Requirements, unless it has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation), and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period."*

Notice of annual general meeting continued

Directors' statement in relation to the share repurchase as required in terms of the Listings Requirements

Pursuant to, and in terms of, the Listings Requirements, the Board herewith states that in determining the method by which the company intends to repurchase its shares, the maximum number of shares to be repurchased and the dates upon which such repurchases will take place, the Board will only make such repurchases if, at the time of the repurchase, the Board is of the opinion that the requirements of sections 4, 46 and 48 of the Act and the Listings Requirements will have been complied with, and that:

- The company and the group will be able in the ordinary course of business to pay its debts as they become due for a period of 12 (twelve) months after the date of this notice.
- The consolidated assets of the company and the group will be in excess of the consolidated liabilities of the company and the group for a period of 12 (twelve) months following the date of this notice. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements, which comply with the Act.
- The ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice.
- The working capital available to the company and the group will be adequate for ordinary business purposes for a period of at least 12 (twelve) months after the date of this notice.

Reason for and effect of special resolution number 4

The reason for special resolution number 4 is to grant the Board a general authority, in terms of the Listings Requirements and the MOI, for the acquisition by the company, or any subsidiary, of the company's shares.

The passing of special resolution number 4 will have the effect of providing the Board with the flexibility, subject to the provisions of section 48 of the Act and the Listings Requirements, to acquire the company's shares should it be in the interests of the company to do so. This general authority shall be valid until its variation or revocation by special resolution at any subsequent general meeting of the company, provided that the general authority shall not be extended beyond 15 (fifteen) months from the date of approval of this special resolution.

General statements and information Listings Requirements

In accordance with the Listings Requirements, the following information relating to the matters detailed below can be found on the relevant page/s of the integrated report (which is available on the company's website **www.mmiholdings.com**), namely:

- The major shareholders of the company.
- The share capital of the company.

Directors' responsibility statement

The directors, whose names are set out in the integrated report (which is available on the company's website **www.mmiholdings.com**), collectively and individually accept full responsibility for the accuracy of the information contained in this notice, the integrated report and accompanying documents, and certify that, to the best of their knowledge and belief, there are no facts that have been omitted, which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice, integrated report and accompanying documents contain all information required by law and the Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated report, no material changes in the financial or trading position of the company and its subsidiaries have occurred between 30 June 2018 and the date of this notice.

Shareholder identification, proxies and voting

In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.

If you hold certificated shares (i.e. have not dematerialised your shares in the company) or are registered as an “own name” dematerialised shareholder (i.e. have specifically instructed your CSDP to hold your shares in your own name), then:

- You are entitled to attend and vote at the AGM or, alternatively,
- In accordance with the provisions of section 58 of the Act, you are entitled to appoint one or more proxies (who need not be shareholders of the company) to attend, speak and, on a poll, to vote or abstain from voting in your stead by completing the form of proxy enclosed with the notice. You should pay careful attention to the notes set out at the end of the form of proxy. It is recommended that the form of proxy be forwarded to the transfer secretaries office of the company, Link Market Services SA (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), by at least 12:00 on Thursday, 22 November 2018, or be delivered to the MMI company secretary or Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion before the commencement of the AGM at 12:00 on Monday, 26 November 2018.

If you hold dematerialised shares (i.e. have replaced the paper share certificates representing your shares with electronic records of ownership under the JSE’s electronic settlement system, Strate Ltd (Strate)), through a CSDP or broker, other than dematerialised shareholders with “own name” registration, you are not registered as a shareholder of the company but your CSDP or broker is so registered. In these circumstances, and subject to the mandate between yourself and your CSDP or broker (or their nominee),

- If you wish to attend the AGM, you must inform your CSDP or broker of your intention to attend and obtain the necessary letter of representation to do so from your CSDP or broker or, alternatively,
- If you are unable to attend the AGM but wish to be represented thereat, you should provide your CSDP or broker with your voting instructions. This must be done in the manner and time stipulated in the mandate between you and the CSDP or broker concerned. You should not complete the attached form of proxy.

On a poll, every shareholder present in person or represented by proxy shall have the number of votes determined in accordance with the voting rights associated with the shares held by such shareholder, which in the case of the company is one vote for every ordinary share held by such shareholder.

Directors: MJN Njeke (Chairman), LL von Zeuner (Deputy Chairman), HP Meyer (Group Chief Executive Officer), JC Cilliers (Marais) (Deputy Chief Executive Officer), R Ketola (Group Finance Director), P Cooper, F Daniels (Jakoet), SC Jurisich, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, KC Shubane, FJC Truter, JC van Reenen.

By order of the Board

Maliga Chetty
Group company secretary

4 September 2018

Registered office
268 West Avenue
Centurion
0157

Report by the Social, Ethics and Transformation Committee

Report by the Social, Ethics and Transformation Committee (SETC) to be presented at the 17th (seventeenth) Annual General Meeting of the Shareholders of the company, to be held on 26 November 2018, at MMI Head Office, 268 West Avenue, Centurion.

Introduction

The SETC's mandate, received from MMI Holdings Ltd's (MMI or the company) Board of Directors, is to fulfil the following monitoring and evaluation roles:

- Transformation, focusing on broad-based black economic empowerment (B-BBEE) under the Financial Sector Code (FSC) and Employment Equity legislations.
- Compliance with relevant social, ethical and legal requirements of the group, as well as the best practice codes.
- Risk, compliance and treating customers fairly as they relate to ethical behaviour within the group.
- Environmental sustainability.
- Corporate social investment.

Key activities of the committee

Transformation and people practices

MMI Holdings continues to be steadfast in its commitment to transformation, and therefore it is integrated into the business and governance structures. The group's progress on transformation is monitored by the SETC of the MMI Board. The SETC believes that transformation is integral to achieving the company's vision of being the preferred lifetime Financial Wellness partner with a reputation for innovation and trustworthiness. B-BBEE underpins the company's strategic objective to enhance financial wellness, to promote access to financial services and improve financial literacy in a country that continues to grapple with inequality.

Latest B-BBEE verification

In December 2017, the much anticipated FSC was promulgated, resulting in all financial institutions who underwent their B-BBEE audit after December to be audited against the revised codes. The new requirements of the code, saw a number of companies declining in their B-BBEE performance, including MMI who moved to a Level 3 under the revised FSC, after many years of being a Level 2 contributor. Although Level 3 is generally not a negative performance, the company's goal is to work towards going back to Level 2, and eventually Level 1. This goal will be achieved through implementation of the company's transformation strategy, which the SETC will monitor closely.

MMI Holdings' Revised FSC Scorecard

B-BBEE Element	Maximum Points	MMI 2018
Equity Ownership	28.00	19.50
Management Control (including Employment Equity)	20.00	12.52
Skills Development	23.00	9.92
Preferential Procurement	19.00	17.00
Enterprise and Supplier Development	14.00	12.90
Socio-Economic Development, including Consumer Education	8.00	6.00
Empowerment Financing	15.00	14.82
Access to Financial Services	12.00	8.15
Total	**120 + 19 Bonus Points**	**100.82 Level 3**

Equity Ownership

Although there has been no change which can be attributed directly to MMI equity ownership structure throughout the year, there have been significant changes which relate to the measurement of the ownership scorecard as a result of the amendment of the FSC which was gazetted in December 2017. The changes impacted both the MMI black ownership level and scorecard.

Three B-BBEE transactions were concluded and registered with the BEE Commission, i.e. partnerships with:

- MMI Strategic Investments and Aluwani Management Partners.
- Metropolitan Health and a consortium involving Thebe Health Group, POPCRU group of companies and Validate.
- Providence Healthcare Risk Managers and Thebe Ya Bophelo Administrators.

The total value of the transactions is over R430 million, with a focus on increasing black ownership in the three businesses.

Employment Equity

The company believes that a diverse workforce will yield better results, therefore diversity has been adopted as one of the new key strategic priorities. The company continues to grapple with minimal retention of Africans. However there have been concerted efforts from leadership to improve the status quo.

- A transformation workshop was held with the MMI Executive, where the current Employment Equity results were shared with the leaders. The workshop was well received, and the leaders made commitments to help drive transformation in their areas. Fourteen positions on Transitional Leadership were committed for Employment Equity to help improve representation of African employees, especially women.
- Representation of people with disabilities increased from 99 to 115, with the introduction of a new learnership programme focusing on people with disabilities.

Skills Development

Although there is a decline in Skills Development performance due to changes in legislation, the company continues to invest time and money in its workforce, in partnership with Inseta.

- Over R153 million spent towards developing our black employees.
- Over R85 million spent on the development and upskilling of our black female employees.
- Over 570 learnership opportunities created.

Preferential Procurement

MMI has a procurement strategy that supports transformation, and continues to show positive performance, currently scoring full points against the revised FSC scorecard. The procurement team is committed to proactively identify opportunities for preferential procurement throughout the value chain to maintain/improve the status quo, and continue to go beyond compliance by supporting and developing **small businesses**, to enable them to graduate onto our supply chain and **access other markets**.

Report by the Social, Ethics and Transformation Committee continued

Over R5 billion was spent on preferential procurement in 2017, with:

21.02%	Spent on qualifying small enterprises (QSEs)
13.13%	Spent on exempted micro enterprises (EMEs)
22.94%	Spent on suppliers who are at least **51% black owned**
15.57%	Spent on suppliers who are at least **30% black women owned**

Enterprise and Supplier Development and Empowerment Financing

MMI's Masikhulise Enterprise Development Trust continues to support and develop small businesses, including brokers and intermediaries. The Trust is mandated to address the challenge that the financial services industry is facing around untransformed supply chains, by supporting and providing funding to empower small businesses to access new markets including MMI's supply chain.

- Over R56 million spent on Enterprise Development to develop and grow small businesses.
- Over 500 jobs created through the partnership with ASISA in supporting small businesses.
- Over 400 enterprises supported through Enterprise and Supplier Development initiatives.
- Over 7.9 billion spent on Targeted Investments and B-BBEE transactions through Empowerment Financing.

Corporate social investment (CSI)

A significant achievement was the implementation of the MMI Foundation's Youth Employment Strategy — a review, research and benchmarking process which spanned almost 18 months. This entailed changing the MMI Foundation (MMIF) Board and aligning operational elements like the MMIF funding model to support the new strategy. The MMIF now focuses exclusively on initiatives which support young people throughout the journey to employment, from recruitment and training to income generation and career management and mentoring.

The client-facing brands will continue to be the face of MMIF investments. The Momentum and Metropolitan approach, which is to stay the course with people, remains supportive and helps them realise their aspirations, aligns well with this new emphasis of the MMIF to sustain development by offering continued support.

Ethical conduct

The centralised Group Forensic Services (GFS) team is mandated by the SETC to collaborate with business to set strategy and related policies and process in order to ensure that the zero tolerance risk appetite in respect of commercial crime is maintained, including implementing and maintaining specific processes and controls to deal with serious employee misconduct. The SETC continues to monitor and evaluate the GFS quarterly.

Treating Customers Fairly

The SETC continues to review the quarterly monitoring reports on activities relating to customer relations and the fair treatment of clients. The SETC assumes an oversight role on these activities, which are currently being monitored by the MMI Fair Practices Committee (FPC). This FPC is mandated by the MMI Board to provide oversight that fair treatment of clients, a core corporate value, is embedded across the value chain of the MMI group.

Environmental sustainability

MMI actively subscribes to the recommendations set out under the King IV Report on Corporate Governance™ for South Africa, 2016, the United Nations Principles for Responsible Investing and the Code for Responsible Investing in South Africa. In addition, the group strives to comply with relevant legislation relating to environment, social and governance (ESG) enactments. To this end, the group has a sustainability policy and a responsible investment policy in place, which are available on the MMI website. The SETC considers quarterly reports on MMI's sustainability activities.

MMI has been listed on the Johannesburg Stock Exchange (JSE) Socially Responsible Investment Index since 2010, and is listed on the current FTSE/JSE Responsible Investment Index and the FTSE/JSE Responsible Investment Top 30 Index. The group calculates its carbon footprint on an annual basis, and also participates in the CDP (formerly the Carbon Disclosure Project) process. The group has met its carbon emissions reduction target two years ahead of schedule, and has introduced an updated longer-term target. Detailed information regarding this is available on the MMI website.

Conclusion

No significant risks have been identified or have arisen during the past year in respect of the functions of the SETC recorded in the regulations and in the terms of reference of the SETC.

Syd Muller
Chairman: MMI Social, Ethics and Transformation Committee

4 September 2018

Form of proxy

MMI HOLDINGS

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration.

Seventeenth Annual General Meeting (AGM) to be held at 12:00 on Monday, 26 November 2018, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

I, ____ (full name)

of ____

Telephone number (______) ____________________ Mobile number ____________________

Email address ____________________ being the holder of ____________________ (number)

shares in MMI Holdings Ltd, hereby appoint as my proxy the following person:

____ (full name of proxy holder)

of ____

or, failing him/her, ____ (full name of proxy holder)

of ____

or failing him/her, the duly appointed chairman of the meeting, to attend, speak and vote for me and on my behalf at the AGM of the company to be held in Centurion on Monday, 26 November 2018 at 12:00, as well as at any adjournment of the said meeting.

Signed at ____________________ on this __________ day of ____________________ 2018

Signature ____

Voting instructions

(Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.)

Ordinary resolutions

Nature of resolution		For	Against	Abstain
1.1	Election of Mr R Ketola			
1.2	Election of Mr HP Meyer			
1.3	Election of Ms JC Cilliers (Marais)			
2.1	Re-election of Mr FJC Truter			
2.2	Re-election of Mr KC Shubane			
2.3	Re-election of Mr PJ Moleketi			
2.4	Re-election of Mr JC van Reenen			
3.	Re-appointment of PricewaterhouseCoopers Inc. as external auditors, with Mr Andrew Graham Taylor as the designated audit partner			
4.	Appointment of Audit Committee			
4.1	Re-appointment of Mr FJC Truter			
4.2	Re-appointment of Mr LL von Zeuner			
4.3	Re-appointment of Mrs F Daniels (Jakoet)			
5.	Non-binding advisory vote on MMI Remuneration Policy			
6.	Non-binding advisory vote on MMI Implementation Report			
7.	Appointment of Director or Company Secretary to implement ordinary and special resolutions			

Form of proxy continued

Special resolutions

Nature of resolution		For	Against	Abstain
1.	Approval of non-executive directors’ remuneration			
1.1	Chairperson of the Board			
1.2	Deputy chairperson of the Board			
1.3	Board member			
1.4	Chairperson of Audit Committee			
1.5	Member			
1.6	Chairperson of Actuarial Committee			
1.7	Member			
1.8	Chairperson of Remuneration Committee			
1.9	Member			
1.10	Chairperson of Risk, Capital and Compliance Committee			
1.11	Member			
1.12	Chairperson of Social, Ethics and Transformation Committee			
1.13	Member			
1.14	Chairperson of Nominations Committee			
1.15	Member			
1.16	Chairperson of Fair Practices Committee			
1.17	Member			
1.18	Chairperson of Board Committee/Subsidiary Board*			
1.19	Member of Board Committee/Subsidiary Board*			
1.20	*Ad hoc* work (hourly)			
2.	General approval to provide financial assistance for subscription or purchase of securities in related or inter-related entities in terms of section 44 of the Companies Act			
3.	General approval to provide financial assistance to related or inter-related entities in terms of section 45 of the Companies Act			
4.	General approval of share buy-back			

* Official MMI Board Governance Committees, or Boards for certain business units/operational structures, established from time to time.

Electronic communications

	YES, I agree	NO, I don’t agree
In order to contribute to the company’s efforts to limit consumption of paper and natural resources, decrease waste generation and achieve substantial savings to the benefit of MMI stakeholders, I hereby notify the company of my election to receive ALL notices and other communications electronically at the above email address, as and when such shareholder communications become available, including but not limited to AGM notices, summarised form of financial statements, any other prescribed notices and communications.		

Notes

1. The MMI Board determined that the record date for the purpose of determining which shareholders of the company are entitled to receive the notice of AGM is Friday, 21 September 2018, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 16 November 2018. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 16 November 2018 will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote at the AGM will therefore be Tuesday, 13 November 2018.
2. Proxies must be lodged at the company's transfer secretaries office, Link Market Services SA (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), by at least 12:00 on Thursday, 22 November 2018, or must be delivered to the MMI company secretary or Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion before commencement of the AGM at 12:00 on Monday, 26 November 2018.
3. In accordance with the provisions of section 58 of the Act, shareholders have the right to be represented by proxy at shareholder meetings. A member may appoint one or more persons of his/her own choice as his/her proxy/ies by inserting the name/s of such proxy/ies in the space provided and any such proxy need not be a member of the company. Should this space be left blank, the proxy will be exercised by the chairman of the meeting.
4. If a member does not indicate on this instrument that his/her proxy is to vote in favour of or against any resolution or resolutions or to abstain from voting, or gives contradictory instructions, or should any further resolution/s or any amendment/s that may be properly put before the AGM be proposed, the proxy shall be entitled to vote as he/she thinks fit.
5. Subject to the restrictions set out in this form of proxy, a proxy may delegate his/her authority to act on behalf of a member to another person.
6. The appointment of the proxy shall be suspended to the extent that a member chooses to exercise any rights as a member in person. Furthermore, a member may revoke a proxy appointment by:

6.1 Cancelling the form of proxy in writing or making a later inconsistent appointment of a proxy.

6.2 Delivering a copy of the revocation instrument to the proxy and to the company, which revocation will constitute a complete and final cancellation of the proxy's authority to act on behalf of the member with effect from the date stated in the revocation instrument or the date on which it is delivered in terms of paragraph 5 above.

7. Unless the above section is completed for a lesser number of shares, this proxy shall apply to all the ordinary shares registered in the name of the member/s at the date of the AGM or any adjournment thereof.
8. Companies and other corporate bodies are advised to appoint a representative in terms of section 57(5) of the Act, for which purpose a duly certified copy of the resolution appointing such a representative should be lodged with the company's transfer secretaries office, as set out in 2 above.
9. The authority of the person signing a proxy form under a power of attorney must be attached hereto, unless that power of attorney has already been recorded by the company.
10. In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.
11. Please note that the company intends to make provision for shareholders of MMI, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so. In this regard, video-conferencing facilities will only be made available in the Kilimanjaro VC Room, 1st Floor, Parc du Cap Building 7, Mispel Road, Bellville, Cape Town. Should you wish to participate in the AGM electronically, you, or your proxy, are required to confirm your attendance and participation at the Bellville location by written notice delivered to the company, at the address detailed hereunder, by no later than 16:00 on Monday, 19 November 2018. The above-mentioned facility will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 19 November 2018 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention in writing, this facility will not be available on the date of the AGM.
12. Any alterations made to this form of proxy must be initialled.

The Group Company Secretary MMI Holdings Ltd
268 West Avenue
Centurion
0157