MMI Holdings integrated report 2013

DELIVERY & GROWTH

Delivery

When the merger between Metropolitan and Momentum was announced, stakeholders were informed that the transaction would create a leading insurance-based financial services group that would unlock significant value, including the following:

- Enhanced growth opportunities, revenue synergy and economies of scale through the combination of complementary target markets and resources
- Recurring merger savings, ultimately of R500 million per annum, to be achieved over a three-year period

MMI Holdings Ltd's (MMI) group 2013 financial results confirm that it is delivering on the undertakings made at the time of the merger announcement.

The group has met and exceeded expectations on most market performance metrics.

MMI HOLDINGS

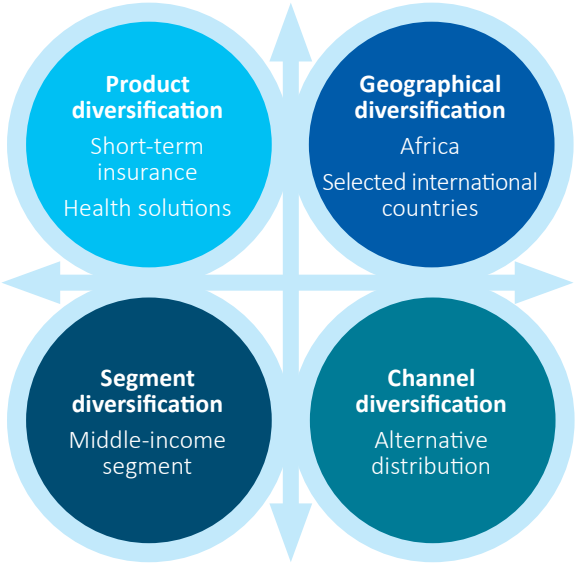
Section 37 transfer of life licences

On May 20, the High Court of South Africa approved the amalgamation of the two long-term insurance licences held by Momentum and Metropolitan, in terms of sections 37 and 38 of the Long-term Insurance Act, 52 of 1998. This means that the current and future long-term insurance policies of Metropolitan and Momentum will all be underwritten by the same long-term insurance licensed entity. The licence is held by MMI Group Ltd which is a wholly-owned subsidiary of MMI Holdings Ltd. Policyholders will continue to deal with Metropolitan and Momentum as the client-facing brands, and all the current client contact details remain unchanged.
Benefits include:

- improved capital and operational efficiencies
- more efficient and simplified governance structures
- simplified compliance

Growth

Now that Metropolitan and Momentum have been integrated, the group is on track to achieve the envisaged long-term merger benefits. MMI's focus has now shifted from delivery on integration to accelerated growth, with the following focus areas:



Client-centricity
Financial Wellness | Cross-selling | Business model

- **Product diversification by** enhancing the capacity, growth potential and profitability of our short-term insurance business, which recently became a wholly-owned subsidiary, and ongoing innovation in health solutions
- **Geographical diversification by expanding** our operations in Africa through appropriate acquisitions and organic growth in respect of additional product lines and more effective distribution, as well as investigating the growth potential of India
- **Segment diversification** by increasing our share of the middle-income market segment in South Africa
- **Channel diversification** through our focus on alternative distribution channels that meet the changing needs of our clients more accurately
- Vesting **client-centricity** as the ethos of our organisation, made possible by **business model** changes and **Financial Wellness** solutions that enable **cross-selling**

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Group chief executive officer's overview
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Introduction

Our approach to integrated reporting
Forward-looking statements

MMI HOLDINGS

Our approach to integrated reporting

Scope and boundary

Our 2013 integrated report covers the activities of the MMI group and includes an assessment of its financial and non-financial performance for the 12 months from 1 July 2012 to 30 June 2013.

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, and the Long-term Insurance Act, 52 of 1998, as amended. They are also in compliance with International Financial Reporting Standards (IFRS); the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Pronouncements as issued by the Financial Reporting Standards Council; guidelines issued by the Actuarial Society of South Africa; and the Listings Requirements of the JSE Ltd (JSE). The accounting policies have been applied consistently to all the periods presented (except where annotated otherwise).

Non-financial information has been prepared taking into account the consultation draft on integrated reporting drawn up by the International Integrated Reporting Council (IIRC), and the King III recommendations. In particular, all environmental, social and governance information is in line with the Global Reporting Initiative (GRI) guidelines on sustainability reporting. More information in this regard is available on the MMI website (sustainability section).

Assurance

The non-financial content of this report was prepared by management and has been endorsed by the board. External assurance has been limited to our broad-based black economic empowerment scorecard, verified by accredited ratings agency NERA, and our carbon footprint, verified by Global Carbon Exchange.

Where to find us

Our registered office is situated at
268 West Avenue, Centurion, South Africa
Tel +27 12 671 8911

www.mmiholdings.com

Both certificates are available on the MMI website (sustainability section). Deloitte has conducted an audit readiness assessment on selected non-financial indicators, which will be used to inform our assurance strategy in future.

Our independent auditors, PricewaterhouseCoopers, have provided external assurance in respect of our group annual financial statements and reviewed the group embedded value report of MMI (refer to their reports on pages 96 and 100 respectively).

Approval

The board acknowledges its responsibility for ensuring the integrity, objectivity, reliability and transparency of the integrated report. The directors confirm that they have assessed the content and believe it addresses all the material matters and fairly presents the overall performance of the group.

The board declares that the integrated report contains disclosure in line with the recommendations of King III and the consultation draft on integrated reporting drawn up by the IIRC and has therefore authorised its release.

The Audit Committee of the board has also evaluated the integrated report, based on the information provided by management. The Audit Committee considers that the group annual financial statements comply, in all material respects, with the required legislation and standards.

JJ Njeke
Chairman

Nicolaas Kruger
Group chief executive officer

Forward-looking statements

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

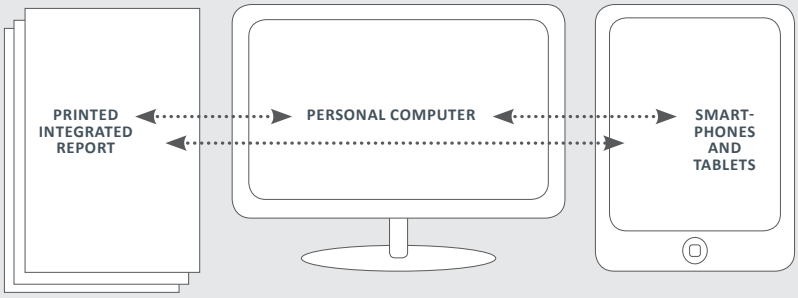
Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could result in the actual results, performance or achievements of the company being materially different from the future results, performance or achievements expressed or implied by such forward-looking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

Forward-looking statements are not statements of fact but statements by the management of MMI based on current estimates, projections, beliefs, assumptions and expectations regarding the group's future performance.

No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

The risks and uncertainties inherent in the forward-looking statements contained in the report include, but are not limited to: domestic and international business and market conditions; changes in the domestic or international regulatory and legislative environment in the countries in which the group operates or intends to operate; changes to domestic and international operational, economic, political and social risks; changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; and the effects of both current and future litigation.

The group does not undertake to update publicly or release any revisions to these forward-looking statements contained in the report and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance of any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.



MMI online

All information contained in our integrated report is published on our website at **www.mmiholdings.com**

Sustainability information is available in the sustainability section of the MMI website. You can also find information on our share price performance and other economic data in the investor relations section.

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At a glance

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Performance highlights

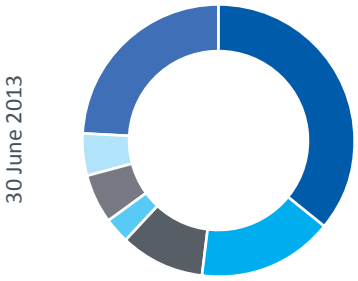
+17%
Return on embedded value **2 191cps**

+12%
Total dividend per share **127cps**

R346m
Cumulative merger savings

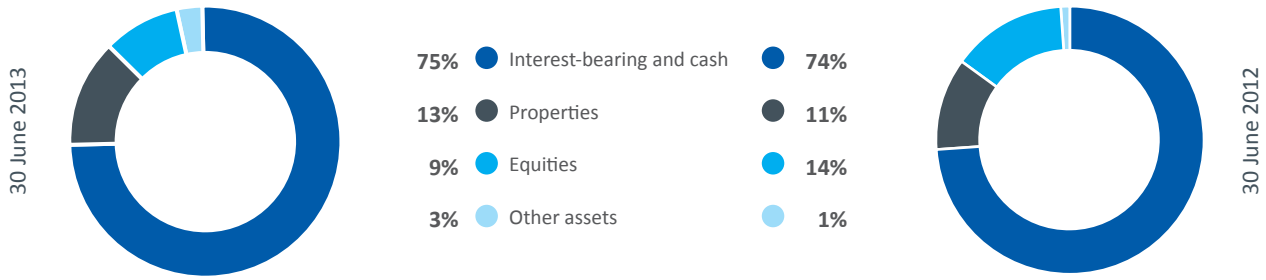
+10%
Diluted core headline earnings **R3 241m**

Diluted core headline earnings

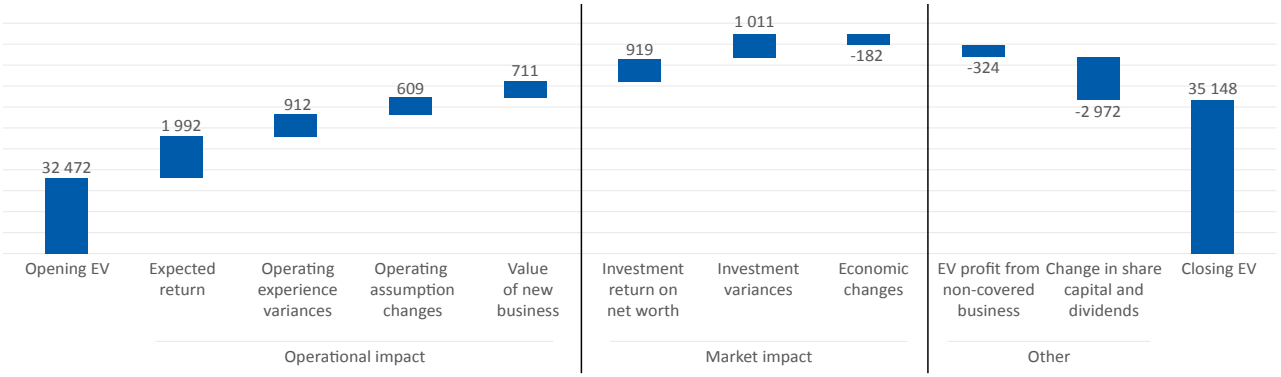


		June 2013 Rm	June 2012 Rm	Change
36%	Momentum Retail	**1 179**	1 064	11%
16%	Metropolitan Retail	**509**	438	16%
10%	Momentum Employee Benefits	**330**	249	33%
3%	Metropolitan International	**108**	57	89%
6%	Momentum Investments	**175**	125	40%
5%	Metropolitan Health	**151**	133	14%
	Operating divisions	**2 452**	2 066	19%
24%	Shareholder Capital	**789**	889	(11)%
	Total	**3 241**	2 955	10%

Shareholder excess assets



Embedded value (EV) analysis (Rm)



Capital strength

Economic capital	Rbn
Net asset value as per embedded value statement	16.4
Qualifying debt	1.5
Less: net asset value of strategic subsidiaries	(1.7)
Less: required capital	(10.2)
Capital buffer before deployment	6.0
Deployed	(2.2)
Final dividend	(1.2)
Strategic	(1.0)
Capital buffer after deployment	3.8

Dividend

Dividend policy

- Stable dividend growth
- Long-term view
- Growth in core headline earnings
- Allowance for volatile investment markets, capital requirements and changes in legislation
- Dividend policy independent from capital management

	June 2013 cps	June 2012 cps	Change
Interim dividend	51	44	16%
Final dividend	76	69	10%
Total dividend	127	113	12%

MMI and the JSE

	June 2013	June 2012	
Listed ordinary shares	1.6	1.6	bn
Preference shares	34	34	m
Total shares in issue	1.6	1.6	bn
Share price at year-end	2 217	1 800	cents
Market capitalisation at year-end	36	29	Rbn

Level 2 B-BBEE status

Transformation

MMI has achieved level two broad-based black economic empowerment (B-BBEE) contributor status for the 2012 calendar year; an improvement from the level three achieved during 2011.

Value added statement

How we created value

	Year ended 30 June 2013 Rm	Year ended 30 June 2012 Rm
Revenue	**72 227**	51 031
Net insurance premiums received[1]	**23 304**	18 694
Fee income	**6 234**	5 248
Investment income	**13 537**	13 100
Net realised and fair value gains	**29 152**	13 989
Less:		
Non-operational expenses	**(6 658)**	(5 030)
Commission paid to agents and brokers	**(3 015)**	(2 850)
Value created	**62 554**	43 151

How we allocated this value

	Year ended 30 June 2013 Rm	Year ended 30 June 2012 Rm
Insurance benefits and claims[2]	**52 618**	34 422
Employee benefit expenses	**4 494**	3 874
Depreciation, amortisation and impairment	**1 144**	1 008
Government	**1 502**	1 304
Shareholders	**3 031**	1 809
Ordinary dividends paid	**2 886**	1 603
Finance costs of debt (including preference shares)	**145**	206
	62 789	42 417
(Net reduction of capital)/business expansion	**(235)**	734
Value allocated	**62 554**	43 151

[1] Net insurance premiums received include premiums from insurance and investment business

[2] Insurance benefits and claims include claims from insurance and investment business and the change in insurance-related liabilities

About MMI

Vision

We will be a leader in meeting financial services needs

Mission

- We will meet client needs by providing a range of appropriate, value-for-money financial solutions in our market segments
- To do this, we will use our insight into the needs of our clients, our strong client-facing brands, product innovation and service excellence
- We will operate in South Africa, other chosen African countries and selected international markets
- Our game-changing client-centric strategy will establish MMI as a leader and enable us to deliver superior shareholder returns on a sustainable basis

Strategic pillars

1 In-depth market knowledge

Strategic insight

- Client needs
- Markets
- Capabilities

Ensures suitability of financial solutions

2 Innovative solutions

Meet needs

- Client-centric
- Responsive
- Disruptive

Ensures excellence in financial solutions

3 Effective distribution

Client connection

- Aligned to needs
- Multi-channel
- Cost-effective

Ensures excellence in delivery of financial solutions

4 Entrepreneurial culture

Drive progress

- Values-driven
- High performance
- Collaborative

Ensures leadership in meeting needs

About MMI continued

Our values

1

Accountability

We show accountability in our willingness to take ownership for our roles, responsibility for our actions and outcomes, and by honouring our obligations to all stakeholders

2

Diversity

Throughout our organisation we embrace and promote diversity, together with the many talents and skills our employees bring from different backgrounds and perspectives

3

Excellence

We strive for excellence in everything we do, by delivering the highest standard of products, service and performance to all stakeholders

4

Innovation

We thrive on innovation by challenging ourselves to find better solutions, continuously improving our processes and growing our people

5

Integrity

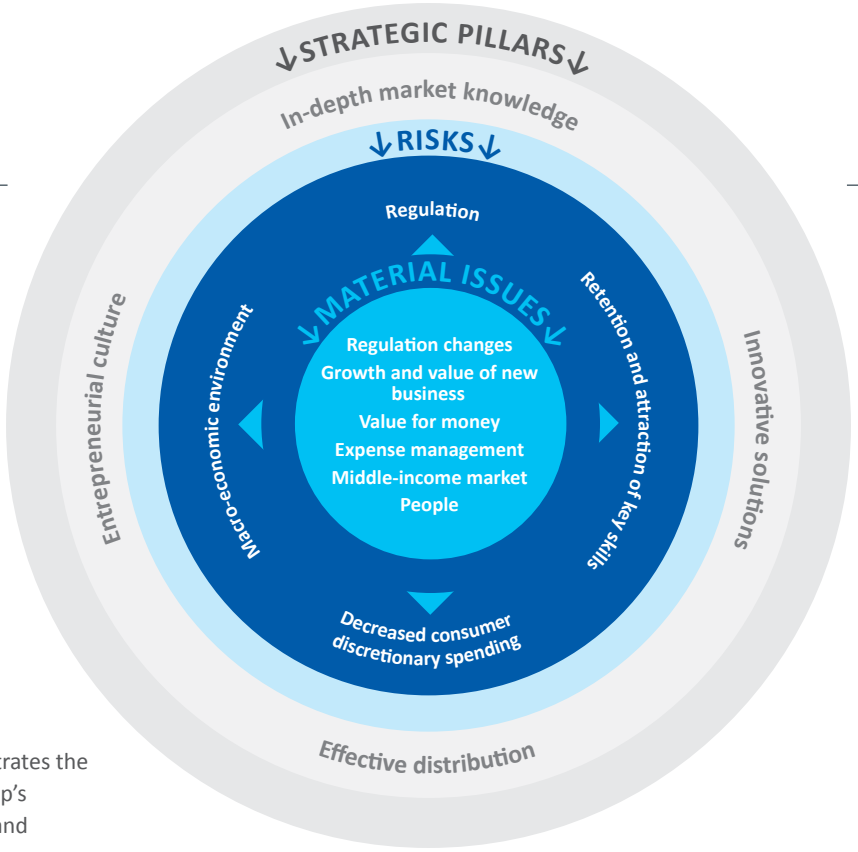
We uphold integrity in living up to what we say, doing the right thing, being honest and treating all people with respect

6

Teamwork

Through teamwork, we support each other by listening, collaborating, encouraging and respecting each other in our quest to achieve mutually beneficial results

Materiality



This diagram demonstrates the link between the group's material issues, risks and strategy

Group strategic focus areas

1. Shifting from integration to growth
2. Collaboration and innovation across the group
3. Product diversification – short-term insurance and health solutions
4. Geographic diversification – grow African businesses and selected international countries
5. Market segment focus

Operational focus areas
• New business volumes
• Client retention
• Expense efficiencies
• Transformation
• Culture (innovation and collaboration)
• Utilisation of capital
• Investments proposition

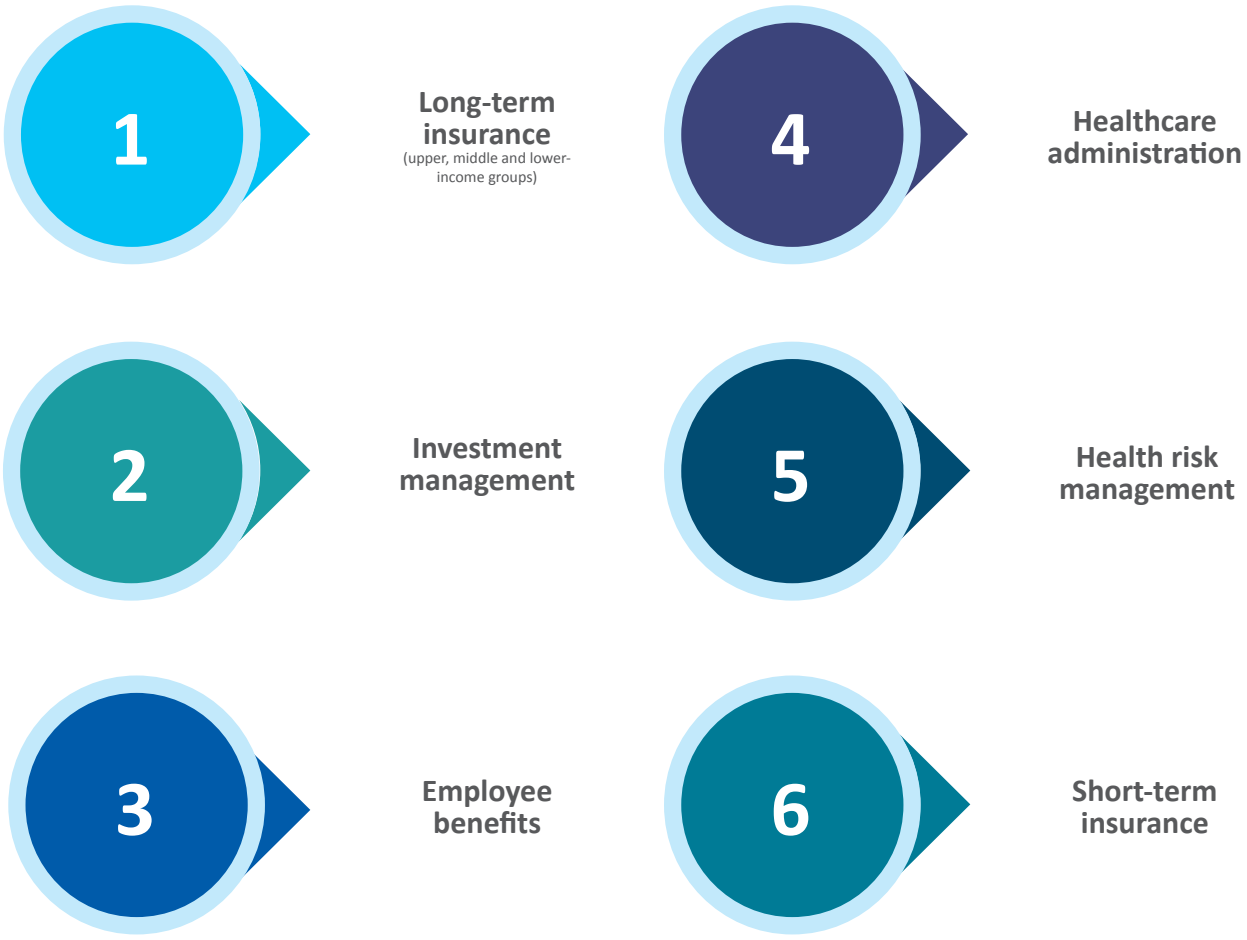
Investment case

Who we are

MMI is one of the largest insurance-based financial services groups listed on the JSE, with an embedded value of R35.1 billion, a market capitalisation of R36 billion and total premium income received of R56.7 billion, focused on meeting the financial needs of customers across the income spectrum.

Broad-based and diversified scale business

MMI's overarching strategy is to provide financial services in South Africa, the rest of Africa and selected international countries. Its core activities are:

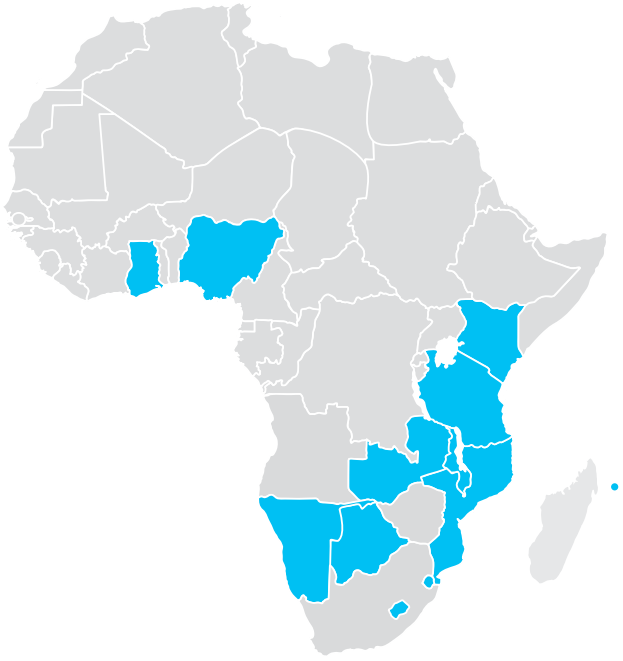


Capable resources

MMI has a diversified and experienced skills base, with an executive team that has more than 200 years of combined experience in life insurance and industry-related areas of interest. It has a focused management team with significant depth. In addition, the group's strategy and operations are underpinned by a board of directors offering a wide range of skills and expertise.

Sound financial position

The group offers investors access to cash-generating businesses, an attractive dividend yield, a strong and efficient balance sheet and sustainable returns.



Balance sheet management

The group has a dedicated function that concerns itself with the protection and enhancement of MMI's shareholder balance sheet.

Credit rating

A+(zaf) with a positive outlook.

Governance

The group is committed to the highest standards of corporate governance as evidenced by its ongoing efforts to comply with the principles of King III, including the composition of its board. Board deliberations are enriched by the diversity of skills and experience of its members. For detailed information on the group's governance practices, please see our corporate governance report on page 56.

Footprint

An extensive African footprint is one of the group's great strengths, with operations in 12 African countries, excluding South Africa.

Investment case continued

METROPOLITAN momentum

Respected and well-liked brands

MMI is purely an investor brand with two established, well-liked and respected client-facing brands – Metropolitan and Momentum, offering the following core competencies:

Metropolitan

- High-volume/low-cost operating model, with a strong presence and capabilities in the low to middle-income markets
- Processing and administration excellence
- Mass-market distribution
- Strong brand equity that is recognised as embracing the principle of ubuntu: "I am what I am because of who we all are"

www.metropolitan.co.za

Momentum

- Targets middle to upper-income market
- Wide range of market-leading innovative products
- National intermediary footprint
- Excellent differentiated client service
- Ability to manage closed and merged books of business

www.momentum.co.za

Momentum Retail provides wealth creation and preservation, insurance and income products through tied agents and independent advisers to customers in the middle to upper-income and wealth market segments in South Africa.

Metropolitan Retail focuses on meeting the needs of clients in the lower to middle-income market, including extended families by providing savings, income generation and income protection (risk) products.

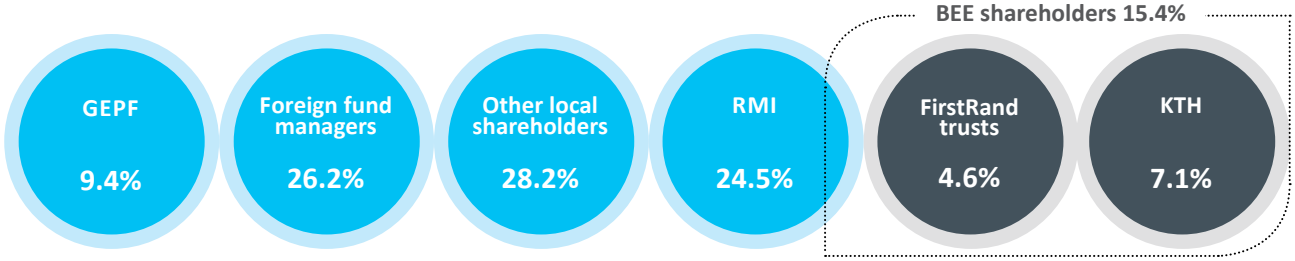
Momentum Employee Benefits provides administration, insurance and investment solutions to employers and retirement funds in both the large corporate and the small, micro and medium enterprise (SMME) market segments. It is also the largest group risk insurer by market share and plays a significant role in the capital protection investment market and has a large share of the umbrella retirement fund market.

Metropolitan International concentrates on satisfying the short and long-term insurance, savings and investment, health insurance and healthcare administration, and pension fund administration needs of retail and institutional customers in 12 African countries excluding South Africa.

Momentum Investments provides a full spectrum of investment services in South Africa, Africa and selected international markets.

Metropolitan Health provides medical scheme administration, managed healthcare, healthcare-related IT and open scheme distribution. A total of 1 255 744 principal members present the required scale, flexibility and efficiency in servicing the needs of clients.

Shareholder structure



Operational structure

Awards and recognition

Some awards and recognition

★★★

MMI Holdings

- MMI was announced as winner in the Sake24 content and visual categories for financial advertising during September 2012. In addition, the group achieved second position in the visual category for the full year.
- MMI's 2012 integrated report received a "good" rating in EY's Excellence in Integrated Reporting Awards

Momentum Retail

Momentum Wealth (Investo) was a finalist in the Employee Benefits, Health, Long-term Insurer of the Year, Risk Products and Long-Term Category – Investment Product Supplier of the Year – Recurring Premium, at this year's Financial Intermediaries Association of South Africa (FIA) awards.

Metropolitan Retail

- Metropolitan Retail's customer magazine, *iMali'Yam*, achieved second place in the 'Best External Newsletter' category at the 2012 South African Publication Forum Corporate Publication competition.
- Metropolitan Retail came second in the *Sunday Times* Top Brands survey of 2013 in the Business to Consumer long-term insurance category.

Momentum Employee Benefits

The division won the following Professional Management Review (PMR) awards:

- Silver Arrow Award for group life and risk products
- Diamond Arrow Award for group pension and provident fund products
- Bronze Arrow Award for investment products
- FundsAtWork won the Diamond Arrow Award for the highest score across all three categories

Momentum Investments

Raging Bull Awards
Metropolitan Collective Investments and Momentum Investment Consulting won the following:

- Top Risk-adjusted Performers (PlexCrown rating over three and five years)
- Southern Charter MET Balanced FoF (Best Domestic AA Prudential Medium Equity Fund)
- Southern Charter MET Growth FoF (Best Domestic AA Prudential High Equity Fund)

Top Outright Performers (over three years)

- 36ONE MET Flexible Opportunity Fund (Best Domestic AA Flexible Fund)
- Sasfin MET Equity Fund (previously known as Sasfin Value Fund) (Best Domestic Equity General Fund)
- Sasfin MET Equity Fund (previously known as Sasfin Value Fund) (Best Broad-Based Domestic Equity Fund)

Morningstar Fund Awards
Momentum Collective Investments won the following:

- MET Odyssey Balanced FoFs (Best Moderate Allocation (balanced) Fund Manager)
- One of MET Collective Investments' third-party boutique investment managers also received an award:
  - Southern Charter (Best Fund House: Small Range for the second consecutive year)

PlexCrown Unit Trust Survey (foreign collective investment schemes (CIS) category)
Momentum Global Investment Management was runner-up in the foreign CIS category (with an overall offshore rating of 4 PlexCrowns). Funds placed:

- Momentum Global Cautious Fund
- Momentum Global Equity Fund
- Momentum Global Managed Fund

Imbasa Yegolide Awards
Momentum Manager of Managers won the Manager of Managers award

Metropolitan Health

The division received the following:

- Business Process enabling South Africa (BPeSA) Western Cape skills development award.
- Metropolitan Health was placed second in the National Disability Company Award hosted by the Ministry of Women, Children and Persons with Disabilities and the Insurance Education and Training Authority (INSETA).
- MMSA received a PMR Silver Arrow for medical scheme administration services.
- Global Credit Ratings (GCR), an independent international rating agency, adjusted Momentum Health Medical Scheme's credit rating upwards from A+ to AA- based on its consistent improvement in financial stability.
- Metropolitan Health Risk Management's HIV *YourLife* web tool was recognised internationally by the Global Business Coalition (GBC). The web tool made the finals in the 'technology for health' category and was commended for excellence in innovation. The web tool is currently being used by a network of general practitioners, pharmacies, biokineticists and voluntary counselling and testing providers nationally.

Risk management

Introduction

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

Enterprise risk management (ERM) enables management to deal effectively with uncertainty and its associated risk and opportunity, enhancing the capacity to build value.

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

The board discharges these responsibilities by means of frameworks and policies approved and adopted by the board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance, and risk management. The framework applies to all the divisions, business units, subsidiaries and activities of MMI.

Risk appetite

MMI's risk appetite is formulated by the Group Executive Committee. The setting of risk appetite is fundamentally driven by the dual, and at times conflicting, objectives of creating shareholder value through risk taking, while providing financial security for customers through appropriate maintenance of the group's ongoing solvency.

Risk management strategy

MMI's key risk management strategies are to:

- understand the nature of the risks to which MMI is exposed, the range of outcomes under different scenarios and the capital required in order to assume 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 policyholder and investor interests by maintaining adequate solvency levels
- meet the statutory requirements applicable to the business
- ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis
- ensure that adequate internal controls are implemented

The board has reviewed the group risk management structure, policies and procedures. MMI actively manages the following risk categories and types of risk:

Risk category	Description	Type of risk	Risk management
Capital management risk	Risk that capital is not managed in line with shareholder expectations as well as regulatory requirements	• Capital adequacy risk	• Capital is managed in line with MMI's capital management framework (a sub-framework of the ERM framework). • The Executive and Board Balance Sheet Management (BSM) Committees provide oversight for the capital management of MMI.
Insurance risk (long-term)	Risk that future risk claims and expenses will exceed value of insurance liabilities	• Mortality risk • Longevity risk • Morbidity risk • Persistency risk • Expense risk • Business volume risk	• The statutory actuary, under the terms of the Long-term Insurance Act, 52 of 1998, ensures solvency and the ability to meet liabilities. He reports to the board, independent auditors and the Financial Services Board (FSB). • The MMI Actuarial Committee supports him in his responsibility.
Insurance risk (short-term)	Risk of decreases in value due to different or higher claims than expected or changes in expectations over time	• Premium risk • Reserve risk • Catastrophe risk	Risk management was outsourced to OUTsurance for the reporting year.
Credit risk	Risk of counterparty non-performance in respect of financial or performance obligations	• Downgrade or migration risk (portfolio quality) • Concentration risk • Counterparty risk	• Managed in terms of the credit risk management policy (policy of the ERM framework). • The Credit Risk Committee is a sub-committee of MMI's Executive BSM Committee. It is responsible for the approval of relevant credit policies and the ongoing review of the credit exposure of MMI.

Risk management continued

Risk category	Description	Type of risk	Risk management
Market risk	Risk of being unable to meet obligations due to changes in the market value of the assets matching the liabilities and/or a decrease in the net asset value due to a decline in the fair value of shareholder assets	• Currency risk • Interest rate risk • Property risk • Equity risk • Inflation risk • Private equity risk • Market liquidity risk • Asset liability mismatching risk	• Managed in terms of the market and liquidity risk management policy (policy of the ERM framework). • Executive BSM Committee provides market risk oversight for interest rate risk, funding and liquidity risk assumed on MMI's balance sheet. • MMI's Group Policyholder Investment Committee monitors investment performance of all investment portfolios, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks.
Liquidity risk	Risks relating to difficulty in raising funds to meet commitments to policyholders and in respect of other obligations	• Liquidity financing risk • Refinancing risk	• Managed in terms of the market and liquidity risk management policy (policy of the ERM framework). • Executive BSM Committee provides market risk oversight for interest rate risk, funding and liquidity risk assumed on MMI's balance sheet. • The MMI Group Policyholder Investment Committee monitors investments in assets which are expected to provide cash flows that match liability outflows as and when they are expected to occur.

Risk category	Description	Type of risk	Risk management
Strategic, business and reputational risk	Strategic risk is defined as the risk that current or prospective earnings will be negatively impacted as a result of adverse business decisions or the improper implementation of such decisions. Business risk is defined as the risk that earnings and capital will be negatively affected as a result of potential changes in the business environment, client behaviour and technological progress. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perceptions of the image of the company on the part of customers, counterparties, shareholders, investors or regulators.	• Macro economic • Micro economic – insurance and financial services industry • Business performance and sustainability • Strategic planning • Business development • General management • Strategic HR and capacity development • Reputational risk	• The individual business areas, CEOs and MMI Executive Committee members are responsible for the development and execution of business level strategy. • The board sets MMI's overall strategy and ensures that strategic objectives set at a business level are consistent with the overall MMI strategy. • Treating Customers Fairly (TCF) is governed by the Fair Practices Committee (FPC) of the board.
Operational risk	Risk of loss resulting from inadequate or failed internal processes, technology, personnel or external factors. It includes legal risk and excludes strategic risk.	• People-related risks • Process-related risks • Fraud-related risks • Technology-related risks • Employment practices and workplace safety • Clients, products and business practices • Environmental, social and governance-related risks • Legal and compliance risk	• Management and employees at every level of the business are accountable for the day-to-day identification, management and monitoring of operational risks. • Operational risk is managed in terms of the operational risk management (ORM) policy (a policy of the ERM framework). • The ORM policy is supported by a number of specialist risk policies, including, but not limited to, a fraud risk management policy and an IT risk management policy. • The risk and/or audit and risk panels in the business units of MMI oversee the operational risk management process.

Risk management continued

Risk category	Description	Type of risk	Risk management
Investment risk	Risk that future returns are inaccurate, or not in line with portfolio expectations, and result in financial loss or reputational damage to the investment manager or MMI.	• Investment performance risk • Asset-liability matching risk • Derivative usage risk • Mandate compliance risk • Portfolio tax risk • Portfolio market risk • Portfolio liquidity risk • Distribution channel performance risk	• Managed in terms of investment mandates and the investment management risk policy (a policy of the ERM framework). • The MMI Group Policyholder Investment Committee is responsible for overseeing investment risk management across the group. • The risk and/or audit and risk panels in the business units of MMI are also responsible for overseeing the investment risk management process as appropriate.
Tax risk	Risk of any event or action or inaction in tax strategy, operations, financial reporting or compliance adversely affecting the group's tax or business position, or resulting in an unanticipated level of penalties, assessments, additional taxes, harm to reputation, lost opportunities or financial statement exposure.	• Transactions/planning tax risk • Operational tax risk • Financial accounting tax risk • Reputational tax risk • Aggregated portfolio tax risk • Management risk	• Managed in terms of the tax risk management policy (a policy of the ERM framework). • The risk and/or audit and risk panels in the business units of MMI oversee the tax risk management process.
Integration risk	Risk of not achieving the synergy and cost savings as envisaged by the integration of Momentum and Metropolitan following the merger.	• Cost savings risk • Integration synergy risk • Client retention risk • Staff retention risk • Project risk	• Integration risk is managed in terms of MMI's operational risk management policy (a policy of the ERM framework). • Governed by the MMI Integration Committee – a sub-committee of the MMI Executive Committee. • The MMI Integration Committee reports to MMI's Executive Risk Committee and MMI's Risk and Compliance Committee on the effectiveness of integration risk management and provides an overview of the integration risk profile of MMI.

Transformation review

MMI has achieved level two broad-based black economic empowerment (B-BBEE) contributor status for the 2012 reporting period; an improvement from the level three achieved during the 2011 review.

This is a remarkable achievement, taking into account that it was achieved during the group's second year following the merger. The group has identified transformation as an important pillar in achieving its goal to be a leader in meeting the financial services needs of consumers, and is working hard to meet and exceed targets set by the Department of Trade and Industry (dti) and the Financial Sector Charter (FSC).

MMI remains committed to the spirit of transformation and believes this will enable it to make a meaningful contribution to transformation within the group and the communities in which it operates.

The group is confident that its skills development programmes will continue to identify talent within the group that can be developed in order to have a transformation-focused pipeline that will address any shortcomings in the management categories. MMI acknowledges that procurement and enterprise development remain important and will pursue meaningful ways in which it can help develop black companies in South Africa because it acknowledges that small and medium-sized business is one of the keys to growing our economy and addressing unemployment.

With the gazetting of the FSC in November 2012, MMI is poised to measure its performance against the FSC scorecard which has introduced the new elements of access to financial services and empowerment financing. These are important pillars in transformation as the financial services industry is positioned to contribute meaningfully to ensuring the majority of South Africa's population can participate in the economy.

The table below reflects MMI's performance as benchmarked against the requirements of the dti's B-BBEE Codes:

B-BBEE element	dti B-BBEE targets	dti performance 2011	dti performance 2012
Equity ownership	20	20.63	20.66
Management control	10	7.92	9.78
Employment equity	15	11.32	8.90
Skills development	15	10.35	11.78
Preferential procurement	20	17.55	15.85
Enterprise development	15	4.09	15.00
Socio-economic development	5	5.00	5.00
Total score	100	76.86	86.97
B-BBEE rating		Level 3	Level 2

Transformation review continued

As a group with sound empowerment credentials we strive to:

- create a diverse workforce
- eradicate unfair discrimination in the workplace
- implement policies and practices aimed at achieving inclusivity and equality
- support the development and advancement of black employees
- contribute to the advancement of black businesses
- uplift and empower disadvantaged communities

As a direct result of our strategy and introduced initiatives, MMI has improved across the majority of the B-BBEE categories, except employment equity and preferential procurement.

In order to ensure further progress in the area of employment equity, MMI is implementing a talent management framework and requisite leadership development programmes to support our transformation objectives and goals.

In terms of preferential procurement, the group is committed to supporting B-BBEE enterprises by continuously identifying and procuring from previously disadvantaged-owned and previously disadvantaged women-owned suppliers.

The table below details our South African employment equity status as at 31 December 2012.

	South Africa								Foreign nationals		Grand total
	African		Coloured		Indian		White				
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	
2012	4 467	2 776	1 549	882	640	482	1 937	1 233	27	37	14 030
2013	**4 527**	**2 737**	**1 445**	**835**	**561**	**427**	**1 753**	**1 129**	**24**	**28**	**13 466**

Number of employees

Number of employees	30 June 2013	30 June 2012
Indoor staff	**9 597**	9 311
Momentum Retail	**1 660**	1 764
Metropolitan Retail	**1 452**	1 431
Momentum Employee Benefits	**1 052**	980
Metropolitan International	**852**	797
Momentum Investments*	**693**	519
Metropolitan Health	**2 947**	2 961
Shareholder Capital		
Balance Sheet Management	**66**	54
Group services	**719**	751
Short-term insurance	**156**	–
Redeployment centre	–	54
Field staff	**6 798**	6 549
Momentum Retail	**993**	1 057
Metropolitan Retail	**4 369**	4 179
Metropolitan International	**1 436**	1 313
Total employees	**16 395**	15 860

* The increase in the number of employees of Momentum Investments is mainly due to the acquisition of Eris Property Group with 280 employees.

Skills development

Skills development at MMI is seen as key in developing capacity and adding value. In the 2012 calendar year MMI spent more than 3% of total employee remuneration on developing and upskilling its employees. More than 80% of this total skills spend was used in the development of previously disadvantaged employees. Of this total, in excess of 63% was spent on upskilling previously disadvantaged female employees. This measurement is aligned with the dti's code 400 or B-BBEE scorecard.

For more detail on these initiatives, please refer to the MMI website (sustainability section).

Social and environmental indicators

Union membership

All employee relations issues are dealt with by the group employee relations and labour law manager of the labour relations business unit within our strategic human resources division, which is headed up by the group strategic human resources executive, an executive director of MMI.

All MMI employees are given the freedom of choice to become union members. As at 30 June 2013, union membership at MMI was less than 1%, with representation on various unions. No industrial action took place in the year under review and the company consequently experienced no strike days or incurred any financial expense related to this type of action.

Corporate social investment (CSI)

MMI has established the MMI Foundation to provide strategic oversight and governance as well as play an advisory role regarding all CSI initiatives. The two client-facing brands, Metropolitan and Momentum, each has its own committee that deliberates on how funds allocated from the MMI Foundation to the client-facing brands should be distributed towards addressing the various social challenges of our country. The committees also ensure the implementation of the CSI strategy of the two brands. The foundation's mission is to create a society where strong leadership and collaboration help bring about sustained behavioural changes in the fields of health, specifically focusing on the areas of HIV and AIDS, and education.

Collectively the group spent in excess of R30 million or 1.02% of net profit after tax (NPAT) on CSI initiatives in the 2012 calendar year. The dti target is 1% of NPAT.

For more detail on these initiatives, please see the MMI website (sustainability section).

Sponsorships

Each of the two client-facing brands, Metropolitan and Momentum, has various sponsorships to enhance the brand as well as support the divisions' focus on creating prosperity and ensuring financial wellness.

- Metropolitan soccer sponsorships
  These sponsorships are used for community development and engaging with the people who do business with us. We currently sponsor the following soccer events and initiatives:
  - Metropolitan U19 Premier Cup
  - Metropolitan SASFA U16 Cup
  - Farouk Abrahams Goalkeeper Academy
  - training workshops in all nine provinces to assist principals, coaches and football administrators with registration, logging fixtures and results and tabulating their logs for the tournament.
- Cricket South Africa (CSA)
  Momentum is the official single-title sponsor of all one-day events under CSA jurisdiction. The sponsorship includes an element of ongoing development at provincial level by means of support for the national club championships.
- Momentum 94.7 Cycle Challenge
  The race encourages all cyclists to ride for a purpose and to make a difference by attaching a social responsibility goal or component to their cycling experience.
- Momentum/Unisa Household Financial Wellness Index and the Momentum Household Net Wealth Report
  Researched and presented in collaboration with Unisa, this information provides financial service professionals and consumers with a meaningful overview to better understand and interpret the current state of financial wellness of South African households. It also provides policymakers with insights needed to improve the financial wellness of households.
- Coming Home
  Through this sponsorship, Momentum recognises the importance of actively preserving and promoting South Africa's artistic and cultural heritage by celebrating homegrown talent and embracing diversity.

Financial education

MMI has a range of promotional activities aimed at enhancing the financial literacy of our customers, thereby supporting them in making more informed and effective decisions that concern their financial welfare. These include:

- *Invest in your future* education brochure featuring information on budgeting, saving, debt management and planning retirement
- Educational material in consumer magazines on a variety of topics such as saving and planning for the future
- Participation in the South African Savings Institute (SASI) community financial literacy programme and savings awareness campaign 2013
- *Invest in your future* workshops held in rural communities which cover topics such as health and wellness and making informed financial decisions
- *iMali'Yam* consumer magazine, using comic strip story lines and accessible language to convey financial concepts easily

Social and environmental indicators continued

Environmental, social and governance (ESG) investing

MMI promotes acceptance and implementation of the United Nations' Principles for Responsible Investment (PRI) and Code for Responsible Investing in South Africa (CRISA) principles. Relevant Momentum Investments' business units are signatories to the PRI. Momentum Investments collaborates with other industry bodies, interested parties, service providers and others on ESG, through engagement, discussion and various initiatives.

During October 2012, the results of a CRISA survey were released by Momentum Manager of Managers following a thorough investigation into the implementation and acceptance, by investment managers, of CRISA.

ESG considerations form an integral part of Momentum Investments' daily business processes:

- Within its various business units, Momentum Investments considers ESG when:
  - Making investment decisions – by evaluating ESG factors within the companies it invests directly into
  - Selecting investment managers – by assessing their ESG practices and policies
  - Investing in properties – by focusing on energy efficiency, water demand management and by targeting green star ratings for refurbishments.
- Dedicated analysts have been appointed whose primary focus areas are ESG and quality standard policy development and monitoring.
- Where applicable, both a record of voting decisions and a register of ESG engagements are being implemented for Momentum Investments going forward.
- We have further integrated ESG into our fund manager due diligence process through more engagement, having taken guidance from the PRI.
- Momentum Investments offers a responsible investment product, the Momentum Manager of Managers SuperNation Portfolio. This is a holistic, comprehensive, Pensions Fund Act, 24 of 1956, regulation 28-compliant investment portfolio that has been structured to address responsible investment guidelines while at the same time competing directly, from a risk-adjusted return perspective, with other traditional balanced portfolios. Multiple specialist investment managers are mandated to derive active investment returns from differentiated segments of the market. Various responsible investment themes are covered in the portfolio, including, but not limited to, infrastructure and development, developmental property, and responsible investment index exposure.

Further enhancements to divisional ESG processes are planned, including:

- Divisional voting policy and guidelines are in the process of being revised with reference to the Companies Act, PRI, King III, Global Reporting Initiative (GRI) and various global industry association codes.
- A summary of the company's ESG efforts, its proxy voting policy, a summary voting report and its voting records are available on the Momentum Investments website www.momentum.co.za (asset management: about us: shareholder activism).

Carbon footprint

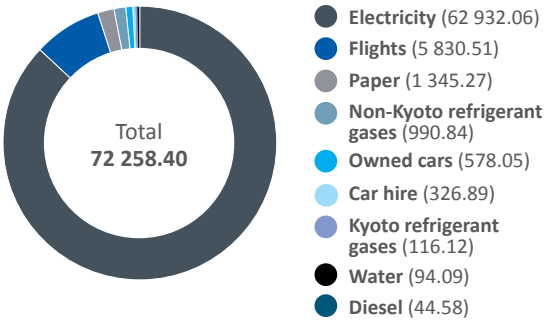
MMI participates in the carbon disclosure project annually and our submission is publicly available on the CDP website www.cdproject.net.

The total of our carbon emissions for the period 1 January 2012 to 31 December 2012 was 72 258.40 metric tons, which equates to 4.04 metric tons per employee. As can be seen from the chart below, the largest contributor to our carbon footprint is electricity, at 88%. In terms of reducing our carbon emissions going forward, and so as to enable the government to achieve its target of reducing country emissions by 34% by 2020 and 42% by 2025, we will concentrate most of our efforts on reducing our electricity usage.

As measurement of the various elements becomes more sophisticated, and complete, it will influence future reports.

For further detail, please refer to the MMI website (sustainability section).

Carbon footprint (metric tons)



Stakeholder engagement

MMI considers the needs of, and is committed to regular, open and honest ongoing communication with all its stakeholders. The main audience for this report remains investors and regulators.

The major focus of the stakeholder relations management unit has been on the development of a comprehensive stakeholder strategy that will cover the following:

1. Development of a framework, strategy, operating model and key performance areas. MMI is developing guidelines for practice, processes, policies, behaviours and stakeholder relations systems and tools. The tools will assist with stakeholder analysis, issues mapping and management, an issues tracking system and an events calendar. An important part of the stakeholder strategy model is the development of an MMI universal map which will include all the divisions, business units and projects. The map will take the socio-political environment, stakeholder community and key issues into consideration.
2. Appropriate messaging that endorses MMI's strategic pillars. MMI takes a critical approach to key strategic issues and actively engages in lobbying where appropriate through:
    - Community stakeholder relationships
    - Public private partnerships
    - Reputation protection steps
    - Good corporate citizenship
3. Articulate the roles and responsibilities of all internal players:
    - Clarify stakeholder category owners
    - Identify projects or issues owners
    - Establish clear lines of accountability
    - Training/coaching of key officials within divisions, business units and projects to ensure alignment with the stakeholder approach and messaging
    - Internal communication of monthly heat maps, quarterly reviews and annual integrated report submissions
4. Identify relevant stakeholders and responsive strategies to deal with different issues.

For further detail on MMI's current stakeholders and engagement practices, please see the MMI website (sustainability section).

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Shareholder reports

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Chairman’s letter to shareholders

JJ Njeke
Chairman

Dear Shareholder

Strong foundation for growth

The merger between Metropolitan and Momentum culminated in the listing of MMI on the JSE on 1 December 2010. Mergers of this size and complexity normally take many years to implement, but in less than three years, I am very pleased that the MMI merger integration has essentially been completed. Metropolitan and Momentum are still client-facing brands due to the significant strength they have in their respective market segments. Internally MMI operates as a fully integrated entity with a corporate identity, using the same life licence and with a shared vision of an exciting future.

The most visible evidence of the merger's success is the confirmed realisation of annual merger savings totalling R346 million to date. Less visible, but in my view of significantly higher importance, is the strong foundation that has been built to advance growth opportunities.

I believe the successful creation of the combined growth foundation is largely attributable to the commitment and high levels of collaboration between MMI's leaders and within its management team. In particular, members of the MMI Executive Committee (exco) and board have prioritised the identification of growth opportunities to the benefit of the merged entity. After a relatively short period since the merger, it is today almost impossible to distinguish between previous Metropolitan and Momentum exco and board members. This is very encouraging and an important component to take MMI into the future.

Strategic challenges and opportunities

Contrary to the good progress made within MMI, the external environment remains challenging. Economic uncertainty continues globally and South Africa's economic performance and prospects have dimmed over the past year. This is mostly due to a decline in investor confidence, largely as a result of the unstable labour environment in the country. It was not surprising that South Africa's credit rating was cut in 2012, highlighting subdued growth prospects, high unemployment, inequality and poor service delivery. While acknowledging these challenges, I believe that our country continues to offer many opportunities for investors and its citizens. However, strong and decisive leadership is necessary to bring out the best in our people and lead us to growth and prosperity.

Business leaders in the financial services and insurance industries are in agreement that the scale and pace of regulatory change is a major challenge. This challenge is a global reality, but South Africa's unique characteristics complicate the implementation of necessary regulatory changes based on global trends. In particular, it is difficult to avoid unintended consequences and the burden of cost creep. MMI supports government's objectives in respect of the currently envisaged regulatory changes and looks forward to collaborating and finding optimal implementation solutions to achieve these objectives, mitigating unintended consequences in the process. We have already found areas within MMI where new regulations add value to our business, for example the Financial Services Board's (FSB) Solvency Assessment and Management (SAM) initiative. Our own objective to create a truly client-centric organisation aligns very closely with the FSB's Treating Customers Fairly (TCF) framework.

I have already mentioned the strong growth foundation and related opportunities that have been a benefit of the merger integration. More detail about particular growth opportunities is provided in the group chief executive officer's overview.

Chairman's letter to shareholders continued

Financial performance

MMI delivered strong results in a challenging operating environment. MMI's return on embedded value is one of the primary indicators we use to measure MMI's financial performance and we achieved a return on embedded value of 17% for the financial year ended 30 June 2013, well in excess of our targeted return.

It is worthwhile to consider the value created since MMI was listed on the JSE. MMI's embedded value increased from R31.1 billion to R35.1 billion since 1 December 2010, and we paid a total of R5.5 billion in dividends up to 30 June 2013. The total value created since the merger is therefore equal to R9.5 billion. Although we have started investing in growth initiatives, MMI was able to retain a capital buffer of R3.8 billion, providing a useful cushion against any potential increase in capital requirements because of the introduction of the Solvency Assessment and Management (SAM) dispensation in the next few years.

South African consumers

Last year I stated that South African consumers were financially vulnerable. Although this remains the case MMI achieved an increase in new business sales of 10%. We expect high unemployment and household debt levels, as well as low disposable income and savings levels to remain realities for South African consumers. However, pockets of growth opportunities remain in particular segments and sub-segments of the market into which MMI is expanding.

Corporate citizenship

One of the highlights of the past year was the improvement in MMI's B-BBEE score from level 3 to level 2. I am pleased with the introduction of unique empowerment components through the Financial Sector Charter (FSC) and believe there is significant value in having targets such as access and empowerment financing that are tailored to maximising the value our industry can add. The FSC's targets are potentially more onerous than the generic dti codes, but we are committed to making a meaningful contribution to the goals of the charter.

I believe the successful creation of the combined growth foundation is largely attributable to the commitment and high levels of collaboration between MMI's leaders and within its management team. In particular, members of the MMI Executive Committee and board have prioritised the identification of growth opportunities to the benefit of the merged entity.

MMI aspires to being a responsible corporate citizen in all the countries where we operate, but naturally has a specific commitment to transformation in South Africa. This commitment has its origins in both Metropolitan and Momentum. The Metropolitan Empowerment Trust is an example of how we contributed to the upliftment and empowerment of previously disadvantaged people. In 2004 Kagiso Tiso Holdings Ltd (KTH) concluded an agreement to become a significant shareholder in the Metropolitan group. At the same time, in order to enhance empowerment participation, KTH invited members of Metropolitan's broader management team to join them as a 25% partner.

Participation in the Metropolitan Empowerment Trust was taken up by 431 individuals. Previously disadvantaged participants were entitled to 70% of the trust's distributions and a lock-in period was agreed. Once this lock-in period expired the trustees proceeded to realise the investment and distributed the net proceeds to the members.

Board changes

John Newbury retired from the MMI board during the year. I would like to thank John for the significant contribution he made over a long period as Metropolitan board member, and subsequently as a member of the MMI board. Our group company secretary, Francois Jooste, sadly passed away during the year. We will miss Francois' wise counsel and valuable contribution to the effective functioning of the MMI board. I also look forward to the important role that Ngao Motsei, group strategic human resources executive, will play following her appointment to the MMI board.

Prospects

Economic uncertainty continues to characterise the South African and global environments. MMI's businesses performed well in this environment, simultaneously embedding the final stages of a large-scale and complex merger. I believe the growth foundation that resulted from the merger will be able to deal with future challenges. This foundation will also enable us to capitalise on the opportunities that go hand in hand with the challenges. The combination of merger benefits, the implementation of our growth and diversification initiatives, as well as MMI's focus on client-centricity, position us well for growth.

Thanks

In closing, I would like to thank all MMI's stakeholders for their support. To shareholders, thank you for believing in us, and to the MMI board, executive management and employees, thank you for your contribution to MMI's success.

JJ Njeke
Chairman

Board of directors

The group is committed to the highest standards of corporate governance as evidenced by its ongoing efforts to comply with the principles of King III, including the composition of its board. Board deliberations are enriched by the diversity of skills and experience of its members.

JJ Njeke (54)

Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax

JJ Njeke, a chartered accountant, spent six years as audit partner at PricewaterhouseCoopers prior to his appointment as managing director of Kagiso Trust Investments on 1 June 1994. He remained in this position, serving on various boards in the Kagiso group, until his resignation on 30 June 2010.

He is presently the executive chairman of Silver Unicorn Trading 33 (Pty) Ltd.

He serves on the boards of Adcorp Holdings Ltd, Resilient Property Income Fund Ltd, MTN Group Ltd, Sasol Ltd and the Council of the University of Johannesburg.

Appointed to board: 2004

Johan Burger (54)

Deputy chairman
Non-executive, independent
BCom (Hons), CA(SA)

Johan Burger graduated from the University of Johannesburg in 1983 and qualified as a chartered accountant after serving articles with PricewaterhouseCoopers. He joined Rand Merchant Bank in 1986 and was appointed an executive director in 1995.

In January 2009, he was appointed to the board of FirstRand Ltd as financial director and assumed the additional role of group chief operating officer in June 2009.

He currently serves on the boards of FirstRand Ltd, FirstRand Bank Ltd, FirstRand Investment Holdings (Pty) Ltd and the Council of the University of Johannesburg.

Appointed to board: 2010

Nicolaas Kruger (45)

Group chief executive officer
Executive director
BCom, FFA, FASSA, AMP (Oxford)

Nicolaas Kruger started his career at Momentum as an actuarial assistant in July 1991. He was appointed as chief actuary of Momentum in 1997 and held this statutory role for 10 years up to the beginning of 2007. He was divisional chief executive officer of the employee benefits and health business in 2005 and 2006. Nicolaas became chief financial officer of Momentum Group in 2007 and was appointed chief executive officer of Momentum Group in January 2009. In December 2010, he was appointed group chief executive officer of MMI Holdings following the merger between Metropolitan and Momentum.

His other directorships include: Association for Savings and Investment South Africa (ASISA), MMI Group Ltd and various other subsidiary companies within the MMI Holdings group.

Appointed to board: 2010

Wilhelm van Zyl (48)

Deputy group chief executive officer
Executive director
BCom, FIA, FASSA, AMP (Harvard)

Wilhelm van Zyl was appointed as managing director of Metropolitan Odyssey in 1999, following the acquisition of Commercial Union Life and Protea Life. Thereafter he was appointed as group actuary of Metropolitan Holdings in 2001 before becoming head of the group's corporate business in 2006. He was appointed group chief executive of Metropolitan Holdings in April 2008 and deputy chief executive officer of MMI Holdings in December 2010. Since September 2012 he also serves as chief executive of Momentum Investments.

He is currently also a director of True South Actuaries & Consultants, MMI Group Ltd and various other subsidiary companies within the MMI Holdings group.

Appointed to board: 2008

Ngao Motsei (48)

Group executive: strategic human resources
Executive director
BSocSc (Hons) (UCT), Masters in Regional Planning (Cornell University), IOSD (Gestalt Institute of Cleveland), BSHR (INSEAD)

Ngao Motsei held various senior positions before joining MMI Holdings. She joined MMI Holdings from the South African Reserve Bank where she was Head of Change Management. She has over 10 years' experience in strategy development, organisational design, transformation, change management, team effectiveness, leadership development and corporate governance. She serves on the board of MMI Group Ltd and various other subsidiary companies within the MMI Holdings group.

Appointed to board: 2012

Preston Speckmann (56)

Group finance director
Executive director
BCompt (Hons), CA(SA)

Preston Speckmann held a senior position with Old Mutual before joining Metropolitan. He was previously an audit partner at PricewaterhouseCoopers and held directorships in the Pepkor Group and Seagram SA.

He serves on the board of the MMI Group Ltd and various other subsidiary companies within the MMI Holdings group.

Appointed to board: 1999

Leon Crouse (60)

Non-executive director, non-independent
BCom (Acc), certificate in the theory of accounting, CA(SA)

Leon Crouse has a rich working history spanning 39 years. He has experience in South Africa and Europe in varying financial roles of prominent global brands. Leon was part of the management team that built Vodacom from a start-up into a world-class company. He was a founder member of Vodacom, serving as director and chief financial officer. Leon joined Remgro in April 2008 as director and chief financial officer.

Leon is a director on the following boards: CIV Fibre Network Solutions (Pty) Ltd, Dark Fibre Africa (Pty) Ltd, FirstRand Ltd, FirstRand Bank Ltd, Total South Africa (Pty) Ltd, Remgro Ltd, Rand Merchant Bank Holdings Ltd and Rand Merchant Insurance Holdings Ltd.

Appointed to board: 2012

Blignault Gouws (69)

Non-executive director, independent
BSc, FFA, FASSA, AMP (Oxford)

Blignault Gouws started his career in 1964 in the actuarial department of Sanlam. He later joined DJ Malan & Partners, actuarial consultants, and became a partner. He joined Momentum Life in 1983 as a general manager and was appointed managing director in 1985. He was a managing director of Lifegro, a subsidiary of Momentum Life, and became executive deputy chairman of Momentum Life following the take-over of Lifegro in 1988.

He previously served as a member of the council and also as president of the Actuarial Society of South Africa. Blignault has also served on the management committee of the Life Offices' Association of South Africa.

Appointed to board: 2010

Fatima Jakoet (52)

Non-executive director, independent
BSc, CTA, CA(SA)

Fatima Jakoet currently conducts her own business consulting practice. She has extensive corporate experience, ranging from finance to telecommunications, and has served on many listed boards.

She previously served on the Metropolitan board (May 1996 to November 2001). She is currently a director of the MTN Group (West and Central Africa Region), Clicks Group Ltd, Tongaat Hulett Ltd, Afrisam (SA) (Pty) Ltd and Rand Refinery Ltd.

Appointed to board: 2005

Niel Krige (64)

Non-executive director, independent
MCom; FIA (London); AMP (Harvard)

Prof Niel Krige has 30 years' experience in the life insurance and asset management industries. He was managing director of Momentum Life between 1988 and 1994, deputy chairman of the Momentum Group between 1995 and 2003 and chairman of the Life Offices Association from 2001 to 2002.

His current positions include: professor, University of Stellenbosch; programme director, post-graduate diploma in financial planning, University of Stellenbosch; director, Momentum Investments; chairman, Board of Trustees Denel Retirement Fund; member of international advisory board of Brandes Institute, San Diego, USA.

Appointed to board: 2011

Jabu Moleketi (56)

Non-executive director, independent
AMP (USA), MSc in financial economics (University of London), post-graduate diploma in economic principles (University of London)

Jabu Moleketi was the deputy minister of finance (2004 to 2008) and a founding member of BlueIQ, which included the Gautrain project. In 2004, he was appointed chairman of the Public Investment Corporation and served for four years. He was the alternate governor of the IMF, representing South Africa from 2004 to 2008, and also the former chairman of the finance and procurement board committee of the 2010 FIFA World Cup local organising committee.

He is currently a non-executive chairman of Harith Fund Managers (Pty) Ltd, Brait SA Ltd and the Development Bank of Southern Africa (DBSA). He is also a director of several JSE-listed companies.

Appointed to board: 2010

Board of directors continued

Syd Muller (64)

Non-executive director, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)

Syd Muller was formerly the chairman of Woolworths Holdings and a director of other companies in the Wooltru group. He is chairman of Holdsport Ltd and the sub-Saharan African review board of Air Liquide SA. He is active on the boards of a number of private companies.

Appointed to board: 1994

Vuyisa Nkonyeni (43)

Non-executive director, non-independent
BSc (Hons); CA(SA)

Vuyisa Nkonyeni has more than 15 years' experience in investment banking and private equity. He is a chartered accountant, having served his training contract with PricewaterhouseCoopers. Upon leaving Pricewaterhouse-Coopers, he joined Deutsche Bank in 1997 where he gained investment banking experience primarily in corporate and project finance advisory work over a four-year period. He has in the past also served as the financial director of Worldwide African Investment Holdings (Pty) Ltd and as director at Actis LLP in their black economic empowerment funding unit. Vuyisa was appointed chief executive officer of Kagiso Tiso Holdings in January 2012.

He also serves on the boards of Emira Property Fund and Idwala Industrial Holdings (Pty) Ltd.

Appointed to board: 2011

Sizwe Nxasana (55)

Non-executive director, independent
BCom, BCompt (Hons), CA(SA)

Sizwe Nxasana started his career at Unilever. In 1989, he established Sizwe & Co, the first black-owned audit practice in KwaZulu-Natal. In 1996 he became a founding partner of Nkonki Sizwe Ntsaluba, the first black-owned national firm of accountants, and was national managing partner until 1998 when he joined Telkom SA as chief executive officer.

In January 2006 he took over as chief executive officer of FirstRand Bank, the wholly-owned subsidiary of FirstRand Ltd, responsible for the entire banking operations of the group, including First National Bank, Rand Merchant Bank and WesBank.

In January 2010, he was appointed chief executive officer of the FirstRand Group.

Appointed to board: 2010

Khehla Shubane (57)

Non-executive director, independent
BA (Hons), MBA

Khehla Shubane is currently an independent policy analyst and consultant. He was employed at the BusinessMap Foundation, a monitoring and research organisation focusing on black economic empowerment (BEE). He has also worked for the Nelson Mandela Foundation as chief executive officer. He was a member of the Soweto Civic Association, a body that represented the local community in opposition to the then official local government institutions.

He is currently a director of RMB Holdings Ltd, RMI Holdings Ltd, Endress & Hausser (Pty) Ltd, Sangonet (NPC), The Johannesburg Roads Agency (Pty) Ltd and Nurcha (NPC).

Appointed to board: 2010

Frans Truter (57)

Non-executive director, independent
BCom (Hons), CA(SA), AMP (Oxford)

Frans Truter was an associate director at Deloitte and also worked at the South African Reserve Bank. He joined Momentum in 1988 as chief financial officer and was involved with the transactions to acquire Lifegro (1988), Southern Life (1998), Sage (2004) and Sovereign Health (2005). He has also served as executive director of strategic investments at Momentum. Frans resigned as a Momentum Group executive in 2007. He is currently involved in certain private equity investments and serves as a non-executive director on the boards of a number of companies.

Appointed to board: 2010

Ben van der Ross (66)

Non-executive director, independent
Dip Law (UCT)

Ben van der Ross was admitted to the Cape Side Bar as an attorney and conveyancer and had a private practice for 16 years. He was an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust, where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He served on the board of The Southern Life Association from 1986 until the formation of the FirstRand Group in 1998.

He is currently a director of FirstRand Ltd, Strategic Real Estate Management (Pty) Ltd, Distell Group Ltd, Lewis Group Ltd, Naspers Ltd and Pick n Pay Stores Ltd.

Appointed to board: 2010

Johan van Reenen (58)

Non-executive director, independent
BSc (Hons), MBA

Johan van Reenen is currently an executive director of Imalivest. He has a wealth of expertise and experience in investment banking and asset management, both locally and internationally.

Appointed to board: 2001

Mary Vilakazi (35)

Non-executive director, independent
BCom (Hons), HDip Auditing, CA(SA)

Mary Vilakazi is an independent consultant. Prior to this, she was the chief financial officer of the MS Group. She is a former partner at PricewaterhouseCoopers, where she specialised in the audit of financial services companies.

She also serves on the boards of MS Group, Development Bank of South Africa (DBSA), Holdsport Ltd and Kagiso Media Ltd.

Appointed to board: 2009

Directors' ages as at 30 June 2013.

Maliga Chetty (43)

Group company secretary
BA, BProc, LLM, CIS

Maliga Chetty is the MMI group company secretary. She has been an admitted attorney and conveyancer for over 12 years. She has extensive legal and company secretarial experience in the health and financial services sectors. Prior to joining Momentum she was employed by the South African Medical Association and Ernst & Young. Maliga has been an employee of the MMI Group as a company secretary since 2010, and filled the role of acting group company secretary from April 2013 until her recent permanent appointment.

Appointed: September 2013

Group chief executive officer's overview

Nicolaas Kruger
Group chief executive officer

Positioned for growth

In a few months' time, MMI will have been listed on the JSE for three years. Reflecting on the strategic rationale for the merger that was originally presented to shareholders, it is pleasing to see this realised in a relatively short period of time. This was made possible through the outstanding contributions of MMI's board, management and employees.

In the original merger rationale (as captured in MMI's Revised Listing Particulars) we argued that the combined entity would "benefit from enhanced growth opportunities, through the combination of complementary target markets and resources". We also identified, among others, attractive prospects in respect of expanding an enlarged African footprint, moving towards cost synergies over time and having a larger and more specialised skills base in many different areas. These expectations are now becoming a reality.

For example, Metropolitan International (MMI's African business) almost doubled its earnings during the past financial year. We have already confirmed annual merger cost savings of R346 million and the strength of our combined skills base is clear. Realising these prospects has been a significant achievement and confirms the potential of the enhanced growth opportunities afforded by the merged entity. The excellent merger integration progress has positioned MMI for growth, despite the backdrop of continued challenges in the environment.

Challenging environment

The past financial year saw a continuation of general economic uncertainty across the world. Even emerging economies have gradually lost growth momentum, although they are still outperforming their developed market counterparts.

South Africa's economic performance and prospects have also dimmed significantly over the past year, partly as a result of the tougher emerging market environment, but more specifically amid an atmosphere of diminished investor confidence arising from the increasing incidence of political and labour instability in the country. Reflecting this trend, South Africa's credit rating was cut in 2012.

The South African consumer continues to experience pressure, mainly due to the dual burdens of waning disposable income growth and high debt levels. Poor employment growth, a slowdown in wage settlements and reduced growth in government welfare payments all compromise consumer income growth, while costs of living continue to rise on the back of a weak currency and rising administered prices. Confirming this trend, Momentum's own Financial Wellness Index, compiled in partnership with Unisa's Bureau of Market Research, showed a small reduction in the nation's financial wellness status.

MMI experienced regulatory changes as a major challenge again in terms of both actual and opportunity costs. We remain supportive of government's goals and are working with government to achieve these goals. In this regard, MMI is represented on numerous industry bodies and collaborative forums with government. For example, we formed part of the Financial Services Board's (FSB) Treating Customers Fairly (TCF) pilot and baseline studies, and are closely involved with developments around Solvency Assessment and Management (SAM), the proposed National Health Insurance (NHI) scheme, retirement and savings reforms, as well as distribution remuneration changes.

Merger integration

MMI's group chief integration officer used a matrix structure to track merger integration progress, cross-referencing the progress made with each of the six main merger integration themes (product strategy, channel consolidation, IT strategy, structure, systems consolidation and branding consolidation) with each of MMI's six client-facing divisions. Out of the 36 resulting integration tasks, only three still need to be completed. Although more than 90% of the merger integration has therefore been completed on this basis, the next steps are being meticulously planned to ensure the successful completion of the three remaining system consolidations in the Momentum Investments, Metropolitan International and Metropolitan Health divisions.

A large part of the cost savings resulting from the merger was based on a reduction in MMI's headcount. It was therefore understandable that the Competition

Tribunal's moratorium on retrenchments caused some concern. To address these concerns we created a redeployment centre to house and redeploy redundant employees. Following the expiry of the moratorium the redeployment centre was closed in December 2012. A total of 350 employees were registered in the redeployment centre, of whom more than 40% found alternative employment in other areas of MMI.

The High Court approved the amalgamation of MMI's life licences on 20 May 2013 into one entity, named MMI Group Ltd. This is an important milestone for MMI, which enables us to streamline our governance structures further.

Financial performance

MMI created significant value during the past year with a very satisfactory return on embedded value of 17%. Earnings growth was supported by our diversified portfolio of businesses. In particular, our smaller businesses returned above average earnings growth to compensate for slower growth in MMI's more established and mature businesses, thereby ensuring resilient portfolio growth for MMI as a whole.

- Value of new business for Momentum Retail increased by a strong 17%, following a specific focus on the improvement of this performance indicator. Core headline earnings increased by 11%.
- Although Metropolitan Retail showed a small reduction in value of new business, core headline earnings increased by 16%.
- Momentum Employee Benefits had an excellent year, increasing core headline earnings by 33% and value of new business by 64%. This result is particularly pleasing against the backdrop of the significant merger integration activity that the employee benefits business experienced.
- Metropolitan International spearheads MMI's geographical diversification growth into Africa and the increase of 89% in core headline earnings is therefore very encouraging. The value of new business for this division increased by a similarly strong 65%.
- Following a disappointing performance in the prior year, Momentum Investments increased core headline earnings by 40%.
- Core headline earnings for Metropolitan Health increased by 14%.
- The contribution to core headline earnings from Shareholder Capital reduced by 11%.

Core headline earnings in MMI's operating units increased by 19%, but the reduction in the Shareholder Capital contribution restricted the group's core headline earnings growth to 10%. Overall new business volume growth reflected the vulnerability of consumers, returning a growth number of 10% (based on present value of new premiums). However, the focus on value of new business and related initiatives to improve this performance measure increased our overall value of new business by 19%. MMI's overall new business margin showed a similar increase from 1.8% to 2.0%.

During the year, Fitch Ratings affirmed MMI's credit rating and revised our outlook to "Positive" (from "Stable").

Transformation

MMI subscribes to transformation in respect of the contribution it can make to South Africa as a country; as well as the value transformation has as a business imperative. We are therefore very pleased with the improvement of our B-BBEE contributor status to level 2. We have already started to work on meeting the new targets of the Financial Sector Charter (FSC). Our experience and proven track record in the South African entry level market should stand us in good stead to make a meaningful contribution to the Access component of the FSC scorecard. Similarly, MMI's asset management skills, particularly in respect of fixed interest and infrastructure investments, should serve us well to achieve the requirements of the Empowerment Financing component of the FSC.

Creating Shared Value

The pressure under which consumers currently find themselves is reflected in the widespread incidence of financial vulnerability and the related rise in dissatisfaction and social instability. This underscores the important contribution that MMI can play in joining hands with the financially vulnerable members of our society to empower them and give them hope in a better and more financially sustainable future for themselves and their families. We aim to achieve this by offering appropriate solutions to our clients, on a basis that also benefits our shareholders – thereby Creating Shared Value for a broader base of stakeholders.

During the past year, the concept of Creating Shared Value has gained momentum globally as an alternative to certain implementations of capitalism that can be destructive. We philosophically agree with the Creating

Shared Value concept and plan to identify and implement initiatives of this nature as part of our business activities. An example of such an initiative is the collaboration between Alpha Pharm and Metropolitan Health to put affordable preventative and primary healthcare within the reach of many more South Africans. The initiative also aligns well with government's health strategy.

In the meantime, we will continue with MMI's corporate social investment (CSI) initiatives, aiming to make a positive difference in the lives of the people who live in the communities where we operate. Our primary CSI vehicle is the MMI Foundation. The MMI Foundation's focus areas are health, education, disability and sport development.

Strategic growth initiatives

I have already mentioned that more than 90% of the merger has been bedded down, providing a solid base for growth. Early success is already evident in respect of our strategic growth initiatives, for example the significant earnings increase in Metropolitan International, which is driving MMI's geographical diversification into Africa. More information about our main strategic growth initiatives is provided below:

- Geographical diversification: We continue looking for acquisitive and organic growth opportunities in Africa. The investigation of opportunities in India is progressing well.
- Product diversification: Following the current year buy-out of the remaining 50% stake in Momentum Short-term Insurance, we have built capacity in this business and plan to increase our market share significantly in the South African short-term insurance market over time. Momentum Short-term Insurance has also invested in the ability to provide short-term insurance solutions to our African businesses.
- Segment diversification: We started implementing our plans to increase our representation in the South African middle-income segment. A dedicated head for the initiative has been appointed and a core team established to drive implementation. A branding framework is in place and extensive research to understand clients in this segment has been completed.
- Channel diversification: MMI already uses a range of different distribution channels. However, global and local trends in respect of social media and self-direction require new thinking in respect of electronic distribution channels.

MMI wants to be a truly client-centric organisation. During the past year we have defined a new business model that would assist us in firmly vesting client-centricity throughout the entire MMI. The new business model requires a number of changes in our business that will be phased in over time. I am confident that our resolve to become client-centric and the gradual implementation of an appropriate business model will help MMI to be truly client-centric. An added benefit of the new model would be the natural facilitation of cross-selling, which is an important growth initiative.

The development of our Financial Wellness growth initiative progressed well throughout the year. We successfully launched the core Financial Wellness solutions to MMI's employees and released the second Household Financial Wellness Index.

Thanks

The past year saw the delivery of many merger integration milestones. With each delivery, originally envisaged merger benefits were realised and the foundation for future growth strengthened. I look forward to leveraging this growth foundation now, in the knowledge that MMI certainly has the resources required to realise our growth ambitions. In closing, I would like to thank the MMI board, management team and employees for your significant contributions during the past year. Thank you also to our shareholders for your support, and thanks to all MMI's clients for trusting us to help you.

Nicolaas Kruger
Group chief executive officer

Executive Committee

Nicolaas Kruger (45)

Group chief executive officer
BCom, FFA, FASSA, AMP (Oxford)

Financial services industry experience:
22 years

Mark van der Watt (45)

Chief executive: Momentum Retail
BSc (Hons), FIA, FASSA

Financial services industry experience:
18 years

Wilhelm van Zyl (48)

Deputy group chief executive officer and chief executive: Momentum Investments
BCom, FIA, FASSA, AMP (Harvard)

Financial services industry experience:
25 years

Phillip Matlakala (59)

Chief executive: Metropolitan Retail
BJuris, BProc, Programme in Taxation and Financial Planning for Life Assurance Consultants (Unisa)

Financial services industry experience:
20 years

Preston Speckmann (56)

Group finance director
BCompt (Hons), CA(SA)

Financial services industry experience:
21 years

Etienne de Waal (45)

Chief executive: Momentum Employee Benefits
BCom (Hons), FFA, FASSA

Financial services industry experience:
22 years

Mervyn Cookson (53)

Chief executive: Metropolitan International
BSc (Hons), MBA

Financial services industry experience: 17 years

Dan Moyane (53)

Group executive: Corporate Affairs
MAP (Wits), EDP (GIBS)

Communications experience: 33 years

Blum Khan (56)

Chief executive: Metropolitan Health
CA(SA)

Healthcare funding industry experience: 18 years

Ngao Motsei (48)

Group executive: Strategic Human Resources
BSocSc (Hons) (UCT), MRP (Cornell University) IOSD (Gestalt Institute of Cleveland), BSHR (INSEAD)

Human resources experience: 12 years

Nigel Dunkley (47)

Group executive: Balance sheet management
BCompt (Hons), CA(SA), AdvTax Cert, AMP (Oxford)

Financial services industry experience: 22 years

Danie Botes (49)

Chief integration and operations officer
BCompt (Hons)

Financial services industry experience: 28 years

Ages as at 30 June 2013.

Group finance director’s report

Preston Speckmann
Group finance director

Introduction

MMI performed well, despite the prolonged tough economic environment, intensified competition and increased regulatory requirements, and is delivering on the undertakings made at the time of the merger. For the 12-month period to June 2013, the group in some instances met and in others exceeded expectations on most metrics.

Basis of presentation and accounting policies

The principal accounting policies applied in the preparation of the current year's results have been consistently applied to all the years presented. New and amended standards applicable to the current year were limited and the impact was therefore not material. Looking forward, however, the implementation of IFRS 10 in the year ahead could have a significant impact on the statement of financial position as more entities, specifically collective investment schemes and cell captives, are likely to be consolidated.

Recent tax amendments

The increase of capital gains tax (CGT) inclusion rates had the potential to have a retrospective negative impact on policyholder funds. National Treasury, however, provided relief to the industry in the form of a deemed disposal mechanism that effectively applied the previous rate to gains realised before the changeover. Dividend tax became applicable at a rate of 15% instead of 10%. The new Tax Administration Act came into effect on 1 October 2012 and various technical changes to previous tax amendments were also announced.

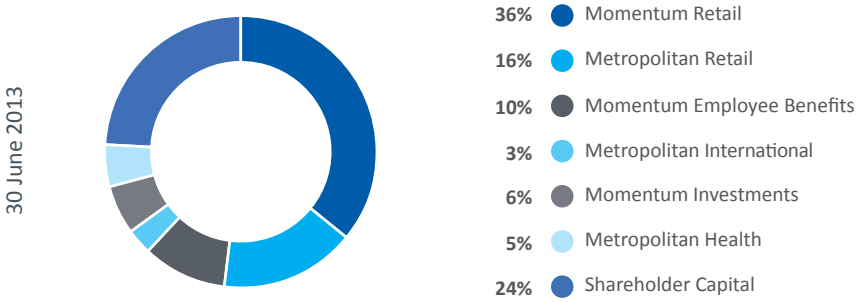
National Treasury postponed the review of the long-term insurance taxation regime until later than originally announced, which is unfortunate as this has led to uncertainty in the industry and impacts the Financial Services Board's (FSB) initiatives to establish a forward-looking tax framework for use under the new Solvency Assessment and Management (SAM) regime. MMI is actively contributing to the formulation of viable proposals through its involvement with the tax forums of both the FSB and the Association of Savings and Investments in South Africa (ASISA) which in turn engage with National Treasury and the South African Revenue Service (SARS). The possible changeover to a new tax regime in conjunction with the introduction of a new regulatory environment, SAM, poses additional challenges to the industry. The move to update the taxation basis to one that has been designed specifically to meet the requirements of a modern investment environment, and that at the same time facilitates the role of the insurance industry in the broader economy is considered crucial by all stakeholders and MMI is putting its full weight behind this important initiative.

In the interim we as a group remain concerned about the ad hoc changes that are constantly being made to existing tax regulations. The resultant increases in legal complexity could ultimately negatively affect the neutrality of participants in the savings and investment industry, a possibility that requires close monitoring. We will be proactively engaging with National Treasury in this regard during the upcoming review of the present tax system.

Contribution to diluted core headline earnings

	June 2013 Rm	June 2012 Rm	Change
Momentum Retail	**1 179**	1 064	11%
Metropolitan Retail	**509**	438	16%
Momentum Employee Benefits	**330**	249	33%
Metropolitan International	**108**	57	89%
Momentum Investments	**175**	125	40%
Metropolitan Health	**151**	133	14%
Operating divisions	**2 452**	2 066	19%
Shareholder Capital	**789**	889	(11)%
Total	**3 241**	2 955	10%

Contribution to diluted core headline earnings



Group finance director's report continued

Divisional performance review

	Momentum Retail			Metropolitan Retail			Momentum Employee Benefits		
Life businesses	**June 2013 Rm**	June 2012 Rm	Change	**June 2013 Rm**	June 2012 Rm	Change	**June 2013 Rm**	June 2012 Rm	Change
Total funds received	**33 210**	30 022	11%	**6 246**	6 042	3%	**12 086**	10 107	20%
New business APE*	**2 195**	2 100	5%	**1 198**	1 159	3%	**1 276**	1 157	10%
Recurring	**1 057**	1 054	–	**1 075**	1 035	4%	**769**	790	(3)%
Single	**11 376**	10 464	9%	**1 230**	1 247	(1)%	**5 067**	3 668	38%
Value of new business	**203**	173	17%	**239**	262	(9)%	**213**	130	64%
PVP margin**	**1.2%**	1.1%		**4.7%**	4.9%		**1.8%**	1.4%	
Operating profit after tax	**1 179**	1 064	11%	**509**	438	16%	**330**	249	33%

Metropolitan International

	June 2013 Rm	June 2012 Rm	Change
Total funds received	**3 522**	2 972	19%
Life insurance			
New business APE*	**316**	255	24%
Value of new business	**56**	34	65%
PVP margin**	**3.4%**	2.6%	
Health			
Membership ('000)	**394**	388	2%
Claims ratio	**69%**	74%	
Operating profit after tax	**108**	57	89%

Momentum Investments

	June 2013 Rbn	June 2012 Rbn	Change
Funds received	**120**	81	48%
Funds paid out	**108**	82	32%
Net flows	**12**	(1)	
Assets under management	**364**	299	22%
	Rm	Rm	
Operating profit after tax	**175**	125	40%

Metropolitan Health

	June 2013	June 2012	Change
Total principal members	**1 255 744**	1 271 343	(1)%
GEMS	**673 966**	641 922	5%
Momentum Health	**111 573**	100 574	11%
Other schemes	**470 205**	528 847	(11)%
	Rm	Rm	
Operating profit after tax	**151**	133	14%

* APE – annual premium equivalent (new recurring premiums plus 10% of single premiums)

** PVP – present value of premiums

Momentum Retail

In the face of the difficult trading conditions that continued throughout the 2013 financial year, Momentum Retail grew its total funds received by 11% to R33.2 billion.

Single premiums increased by 9%, but the slowdown in the overall economy and a contraction in consumer spending had a negative impact on new recurring premium volumes.

The annual premium equivalent (APE) for covered new business increased by 5% compared to the prior 12-month period. The mix of business, which was weighted in favour of smaller margin Wealth business, was responsible for pressure on the overall value of new business (VNB) margin.

Notwithstanding a demanding operating environment, Momentum Retail increased its contribution to the group's core headline earnings by 11% to R1 179 million. A 15% increase in asset fees, as well as a 90% increase in experience profits from the previous year, were the main contributors to the growth in core headline earnings.

Metropolitan Retail

Clients throughout Metropolitan Retail's target markets were negatively affected by pressure on their disposable income which is reflected in metrics such as APE margins as well as the VNB. Regardless of the harsh economic conditions faced by clients, the Metropolitan brand once again proved to be one of the main competitors in the emerging market segments. New business production was 7% up on the prior year comparative.

The division's contribution to group headline earnings increased by a healthy 16% to R509 million. Looking ahead, it must be borne in mind that as from 1 November 2013, the 10% profit share arrangement with FNB Life will reduce to a 5% share. The current 90/10 arrangement contributed R76 million to core earnings, a figure that is expected to reduce once the adjustment to a 95/5 arrangement is implemented in November 2013.

On the distribution front, Metropolitan Retail's traditional channels continued to perform well and the operational efficiencies of the call centre business showed further improvement during the financial year.

Securing efficient premium collection remains a top priority for this business, and the collection ratio for all lines of business improved compared to the prior financial year, particularly in respect of Group Schemes and the Funeral Funder product.

Momentum Employee Benefits

Notwithstanding the highly competitive environment in which it operates, the division continued to entrench its position as a leader in the market through exceptional growth that can largely be attributed to improved risk profits, strong investment performance, excellent good new business as well as the successful retention of existing business.

The combination of sterling new business and strong retention of existing business has also placed the division in a very favourable cash flow position and had a positive impact on all metrics.

The division's exceptional performance was enhanced by strong lump sum inflows during the current year. It should, however, be borne in mind that this kind of business is volatile by nature and, looking ahead, more normalised level of inflows should be expected.

The VNB of R213 million can largely be attributed to the inflow of large lump sum business as mentioned above, and also by strong recurring premium business secured during the second half of the financial year. The division's contribution to core headline earnings has increased by a healthy 33% to R330 million.

There has been a marked increase of competitor activity in the disability income market and the division has taken proactive measures to consolidate its leadership position in this space. Product innovation remains a priority and much work has been done, especially on developing new and innovative products for the investment market which will improve the competitiveness of the division in this market.

Metropolitan International

The division contributed R108 million to core earnings, which represents a significant 89% increase on the prior year. This increase is largely due to an increase in risk profits in Namibia as well as the increased shareholding of Momentum Life Namibia in the current year.

Group finance director's report continued

Life new business (APE) (annualised new recurring premiums plus 10% of single premiums) was up 24% on the prior year. Botswana and, to a lesser extent Namibia, were largely responsible for the year-on-year increase of 65% in the VNB to R56 million.

Although the health business showed only a marginal increase in the total lives under administration to 394 123, the overall profitability of the operations improved due to price increases within the underlying operations.

The division expanded its footprint in concluding a transaction through which it acquired a small life company in Mauritius, while the process to acquire a large stake of a second-tier composite in Kenya remains on track.

Momentum Investments

Core earnings for the Investments division increased 40% to R175 million. Strong investment market performance, along with good retention rates and new business flows in retail distribution contributed to increased assets under management and higher investment fee income. Institutional net client flows were negatively impacted by a large institutional outflow from the FirstRand Group. Performance fees increased on the back of improved investment performance. The division's investment into its African listed equity capability since 2009 has also gained significant traction in the retail space during the financial year. This was achieved on the back of its investment performance track record since inception. The fund was ranked 5th overall in the annual PlexCrown collective investments schemes ratings.

The focus on cost efficiencies resulted in positive operational leverage and the operating margin increased. Within the results, costs associated with various growth initiatives, including the unconstrained team and investment into new distribution channels and markets, have been absorbed. The unconstrained team is fully constituted and capitalised and has successfully pitched and won new institutional mandates towards the end of the financial year. The Eris Properties business has been consolidated into the financial results and contributed positively to the growth.

Metropolitan Health

The fee income growth of four percent from the prior year is largely due to the continued growth in the Government Employees Medical Scheme (GEMS) membership, albeit at a slower pace. At the end of June 2013, GEMS had 673 966 registered members.

The loss of certain contracts and a decline in the membership of Transmed had a negative impact on revenue during the current financial year. The public sector comprised 72%, the private sector 20% and the Momentum Open Scheme eight percent of the division's total membership at year-end.

On the regulatory front it is noteworthy that the National Health Insurance (NHI) White Paper which was due for release before the end of 2012 with a Draft NHI Bill due to be published during 2013 did not materialise.

Despite pressure on its revenue growth, Metropolitan Health increased its core headline earnings by 14% to R151 million.

Capital management

Despite investment markets globally having recovered to some extent and reasonable performance from the South African economy and investment markets during the reporting period, the situation is still volatile and unpredictable. The group remains satisfactorily capitalised as shown in the current statutory capital adequacy requirement (CAR) covers of the various life businesses, also evidenced by the fact that together all the MMI Holdings life entities' solvency requirements are covered 2.6 times, with discretionary margins of R11.4 billion.

The group is in the process of preparing for the adoption of the SAM regulatory capital regime which will be applicable from 1 January 2016.

We participated in the Financial Services Board's second quantitative impact study (QIS 2). Significant technical details are still being deliberated, and the outcome of these deliberations will be incorporated into our capital modelling process. SAM will also in the interim introduce certain minimum standards of risk management and governance through the Insurance Laws Amendment Bill. MMI participated in the Financial Services Board's Pillar II readiness assessment and early indications are that the group will be well positioned to deal with the interim measure requirements once effective.

Ultimately SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits.

For a detailed report on the group's capital management activities I would like to refer you to the risk management and balance sheet management sections of this report on pages 20 and 54.

Key performance indicators

MMI assesses its operational performance against a set of key performance indicators that are approved and annually reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives.

Short-term performance indicators – balanced scorecard

Short-term deliverables are measured over a period of twelve months and are reviewed on an annual basis. For the financial year ended 30 June 2013, the following set of short-term deliverables applied to the group as a whole:

Performance management	Weighting	Achievements
Short-term incentive – balanced scorecard		
Core headline earnings	30%	↑
Value of new business	20%	↑↑
Merger savings	15%	↑↑↑
Transformation	15%	↑↑
Strategic initiatives	20%	↑↑
Long-term incentive		
Return on embedded value		↑↑↑

For internal measurement purposes, performances against each of the five indicators are measured. Specific targets have been set for each division and subsidiary.

Longer-term performance indicator – Return on embedded value (ROEV)

As an indicator of financial performance over the medium- to longer term, the group's return on embedded value is measured on an annual basis, but averaged over a rolling three-year period. The targeted rate of return has been set at 300 basis points in excess of the annual growth in South Africa's gross domestic product (GDP). The target is reviewed on an annual basis.

Group finance director's report continued

The following table is an analysis of the group's return on embedded value for the year ended 30 June 2013:

MMI Holdings Analysis of return on embedded value (ROEV)	Rm	Annualised ROEV %
Expected return – unwind of risk discount rate	1 992	6.1
Operating experience variances	912	2.8
Embedded value from new business	711	2.2
Investment return on adjusted net worth	919	2.8
Investment variances	1 011	3.1
Non-covered (excluding basis changes)	131	0.4
Total (excluding assumption changes)	5 676	17.5
Operating assumption changes	154	0.5
Economic assumption changes	(182)	(0.6)
Total return on embedded value	5 648	17.4

The returns shown in the table are aggregates for the group, including both covered and non-covered business.

Merger savings

All group and divisional strategies have been embedded and total targeted recurring merger savings of R500 million per annum remain on track to emerge up to 30 June 2014.

Dividends

It remains MMI's approved dividend policy to provide shareholders with stable dividend growth that reflects underlying earnings growth in the medium term, while allowing the dividend cover to fluctuate.

The dividend history table below confirms the cash-generative nature of the group. It also reflects MMI's commitment to providing shareholders with steady dividend growth.

Dividends	2011	2012	2013
Ordinary dividend paid cents per share (cps)	105.00	113.00	**127.00**
Growth in dividend per share (%)	–	8	**12**
Dividend cover (times – core headline earnings per share)	1.6	1.6	**1.6**
Dividend yield	6.2	6.3	**5.7**
Special dividend paid cps	21	65	–

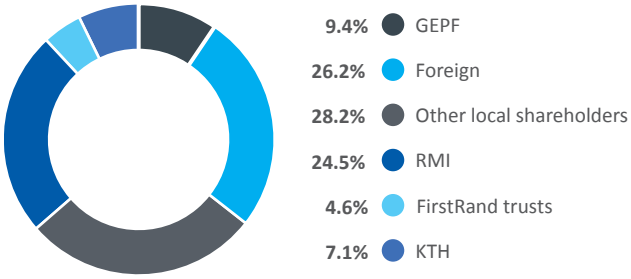
Investor relations

MMI appreciates the importance of efficient and effective shareholder communication and has a dedicated investor relations department, headed up by general manager finance and investor relations, Tyrrel Murray.

Understanding the group's strategy, operations, performance and future prospects is a top priority and the investor relations team employs a wide range of activities, including the JSE (SENS), rating agencies, one-on-one meetings with shareholders and analysts, both formal and informal investor presentations, the print media, television and radio broadcasts, as well as local and international roadshows to keep all stakeholders informed about the business. Our CEO, Nicolaas Kruger, as well as other members of the executive management team, addressed a number of investor conferences attended by both local and foreign investors.

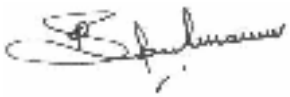
Establishing and maintaining a quality shareholder register remains an important aspect of the group's shareholder profile. The diagram below illustrates the split of beneficial shareholders. Of particular interest is the increase in the group's foreign shareholding from 16.6% at 30 June 2012 to 26.2% at 30 June 2013.

Split of beneficial shareholders



Acknowledgements

I would like to acknowledge the invaluable contribution of all the divisions and group support service areas within the group, as well as my fellow directors for their dedication and strategic input, in making MMI the reputable and leading financial services provider it has become.



Preston Speckmann
Group finance director

Balance Sheet Management (BSM)

BSM has been tasked with enhancing and protecting the MMI shareholder balance sheet as far as exposure to direct market risk is concerned. In managing these risks, BSM seeks to enhance returns and earnings while optimising the level of market risk capital the group is required to hold against these risks. BSM is responsible for ensuring that these risks are identified, quantified, monitored and actively managed within an approved mandate and framework. The financial performance of BSM is included in the Shareholder Capital segment in the segmental report on pages 149 to 155.

Operations

The operating model presents one view of the sensitivity of the shareholder balance sheet to market and credit risks, and the resultant impact of these sensitivities on earnings, embedded value and solvency. This gives rise to a significant business opportunity through the generation of profits while optimising capital levels and market risk management, on a holistic balance sheet basis, by being able to:

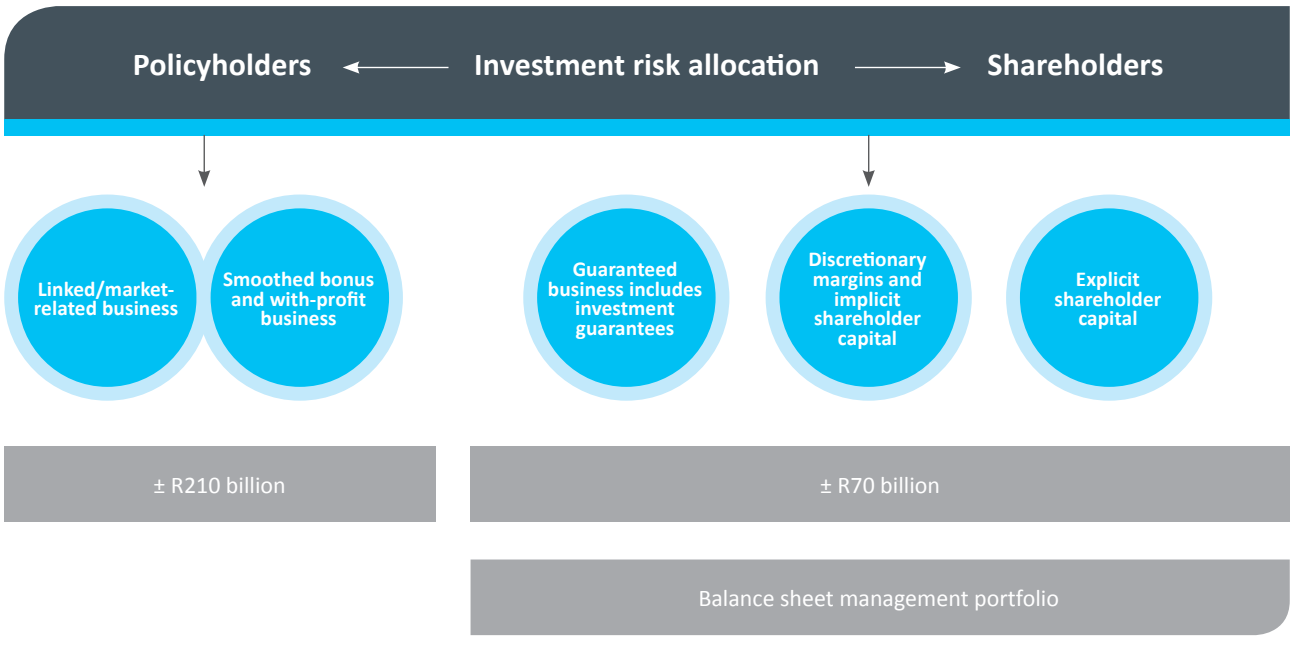
- Manage the balance sheet within group risk tolerance levels
- Control market risk economic capital levels
- Apply a single market risk view across the MMI balance sheet thereby removing sub-optimisation
- Manage net market risk positions and alleviating offsets
- Manage shareholder credit exposures and credit lines to optimise portfolio diversification
- Extract asset acquisition scale benefits in hedging activities
- Manage funding sources and liquidity requirements
- Create a centralised capacity to co-ordinate strategic merger and acquisition activity
- Not replicate scarce skills or sub-optimising performance at portfolio level
- Optimise further balance sheet opportunities that present themselves

The unit protects the shareholder balance sheet against direct exposure to market risks that impact embedded value, earnings and solvency. These market risks include the following:

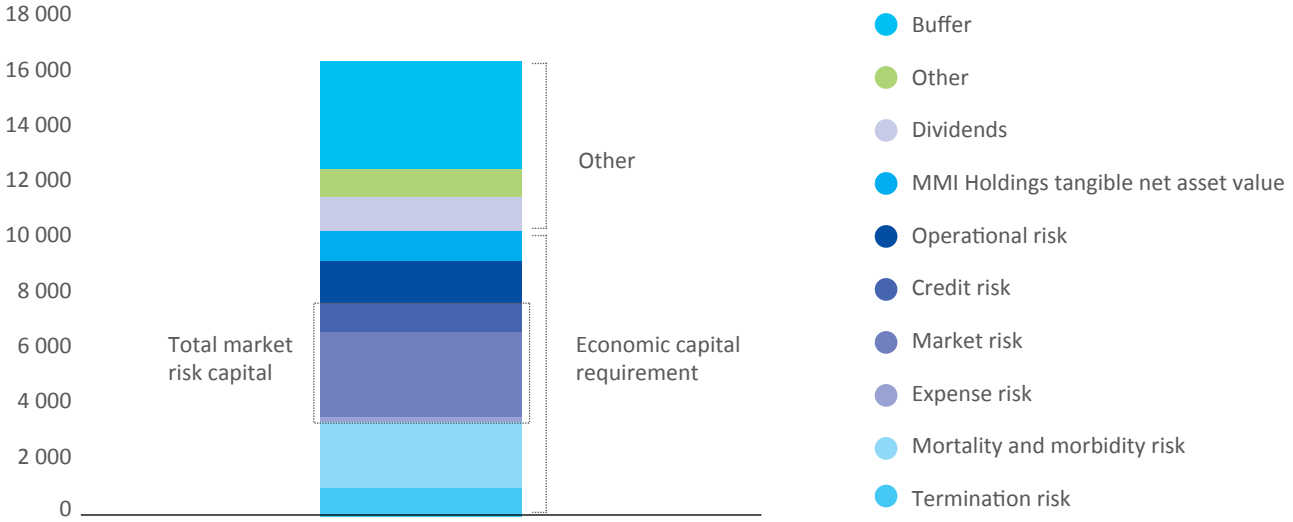
- shareholder interest rate risk
- shareholder inflation risk
- shareholder equity risk
- shareholder credit risk
- shareholder liquidity risk

Shareholder balance sheet

The diagram below shows how the shareholder balance sheet (managed by BSM) fits into the total MMI balance sheet.



Shareholder economic capital (R million)



Capital strength

Economic capital	Rbn
Net asset value as per embedded value statement	16.4
Qualifying debt	1.5
Less: net asset value of strategic subsidiaries	(1.7)
Less: required capital	(10.2)
Capital buffer before deployment	6.0
Deployed	(2.2)
Final and special dividend	(1.2)
Strategic	(1.0)
Capital buffer after deployment	3.8

Key areas of strategic and operational focus for 2014

- Capital management: BSM will seek to optimise the capital requirements, with specific focus on the market risk component of the economic capital.
- Cash and liquidity: BSM need to further develop operations and processes in order to optimise and enhance the cash and liquidity positions of the group.
- Deal-making: BSM must continue to enhance earnings and value through implementation of transactions in accordance with mandates and risk tolerance levels.
- Bed down the operating model: BSM need to make further strides towards achieving the operating model, which will yield significant benefits as described in the operations paragraph above.
- Systems implementation: In order to achieve the above, it is critical that the treasury (cash and forex) systems, as well as asset liability management platforms are substantially implemented during the year.

Corporate governance report

Group governance structure

Introduction

The MMI board is committed to the highest standards of corporate practice and conduct, as endorsed in the King Report on Corporate Governance (King III). The group strives to have the best processes in place to implement principles of good corporate governance and to assist directors in discharging their duties and responsibilities, which include the delivery of excellent service to all stakeholders. Appropriate best practice is adopted and monitored in all the countries where the group operates.

Governance structure review

As reported in the previous corporate governance report, MMI undertook a process to review the group governance structure. This review was completed during 2012 and MMI is in the process of implementing the key actions that were noted.

Governance of risk

MMI recognises that clear accountability is fundamental to the management of risk. The adopted "three lines of defence" governance model distinguishes between:

- First line of defence – owning and managing risk
- Second line of defence – risk guidance and oversight
- Third line of defence – assurance providers and governance committees

First line of defence	Second line of defence	Third line of defence
Head of business: primary risk owner Ensures that entity acts in accordance with board-approved mandates Responsible for identification, assessment, measurement, monitoring and reporting of risks within entity Responsible for appointment of divisional risk management functions to support entity **Divisional ERM** Implements risk management frameworks and supports entity in fulfilling risk management duties **BSM function** Balance Sheet Management (BSM) is responsible for overseeing and ensuring proper corporate governance over and management of market risk (including interest rate risk), as well as credit, funding and liquidity risks, on behalf of shareholders. BSM also oversees and directs MMI's capital management activities	**Statutory actuary** Ensures that relevant legal entity remains solvent and able to meet liabilities at all times **Chief risk officer, MMI ERM and specialist risk functions** • Ensures an appropriate risk management framework is in place for the group • Provides independent oversight and guidance across the group **Executive Risk Committee** Provides executive oversight and review of information presented by divisional and specialist risk management functions **Executive BSM Committee** Oversees and ensures proper governance over and management of market, credit, funding and liquidity risk in respect of shareholders	**External assurance providers** Provide independent assurance of the adequacy and effectiveness of risk management practices to: • Board Risk and Compliance Committee • Board BSM Committee • Board Actuarial Committee • Board Audit Committee Confirm compliance with various legislative and regulatory requirements

Assessment of King III principles

The assessment of the application and implementation of King III, including current levels of compliance in respect of the guidance and oversight of risk, governance and compliance management across the group, is ongoing.

The results to date show that governance processes are well entrenched in MMI, and that the group is generally compliant with all the principles of King III. Where gaps have been identified, plans are being put in place to ensure compliance. These gaps can primarily be attributed to the merger, which has necessitated the development of new policies and procedures to merge the two previously independent entities.

The main gaps are:

- Principle 7: The chief audit executive should have a standing invitation to attend Executive Committee (exco) meetings. Although the group's chief audit executive does not have a standing invitation to MMI exco meetings, he is operationally represented by the group finance director. He attends MMI exco meetings when required to provide input or to report on particular issues, and has access to all the information required to fulfil his duties and obligations.
- Principle 9: Sustainability reporting and disclosure should be independently assured: MMI has commissioned an audit readiness assessment on selected non-financial indicators. Based on the findings of this assessment, future assurance processes will be planned.

A table disclosing all the principles of King III and how each has been applied is available on the MMI website (about us: corporate governance section). Reasons are given in each instance where a principle has not been applied.

Board and committees

The board of MMI has been designated as the axis around which the execution of the group's corporate governance revolves. The board is mandated in terms of its charter, and the board committees in terms of their respective terms of reference. The board charter and the terms of reference of the various board committees clarify the MMI approach, and are available on the MMI website (about us: corporate governance section):

- The governance framework adopted by the board is based on the South African standards of good corporate governance as articulated in King III.

- The board aspires to a progressively mature approach, with appropriate adoption of international best practices and frameworks.
- The board fully supports the appropriate implementation of corporate governance.
- The board is committed not only to the principles and recommendations contained in the King reports but also to the practices outlined therein as these apply to the economic activities of the group.
- The board embraces a triple bottom line approach which includes a strong focus on the economic, environmental and social impact of the group's business activities and not just the financial results thereof.
- In exercising their fiduciary duty with due care, skill and diligence, the board will act in the best interest of all stakeholders of the group and not only shareholders, acting responsively and with responsibility towards them all.

The committees are currently addressing the following issues, per committee:

Social, Ethics and Transformation Committee

In terms of section 72(4) of the Companies Act, 71 of 2008 and regulation 43 of the Companies regulations, MMI had to appoint a Social and Ethics Committee within one year of the Companies Act coming into effect, ie before 1 May 2012.

The group had established board committees that already performed a substantial number of the functions prescribed for the Social and Ethics Committee, namely the Fair Practices, Risk and Compliance and the Transformation Monitoring Committees. The Transformation Monitoring Committee has accordingly been renamed the Social, Ethics and Transformation Committee (SETC). The terms of reference of all these committees have been amended to ensure compliance with the Companies Act.

The SETC is mandated and authorised by the board, to fulfil the following monitoring and evaluation roles:

- Transformation, focusing on black economic empowerment and employment equity
- Compliance with relevant social, ethical and legal requirements of the company as well as best practice codes
- Risk, compliance and Treating Customers Fairly as these relates to ethical behaviour within the company
- Environmental sustainability and corporate social investment

Transformation of the organisation forms a substantial part of the deliberations of the committee and it is gratifying to record that significant progress has been made, as evidenced by the level 2 empowerment rating attained during the 2012 calendar year.

The report of the SETC, which will be presented at the annual general meeting on 27 November 2013, is available on the MMI website (about us: corporate governance section).

Sustainability governance

The head of sustainability at MMI is supported by a sustainability champion in all group divisions. The champions are responsible for elevating division-specific sustainability issues to group level as well as for driving group-led sustainability activities at divisional level in order to address identified focus areas.

A Group Sustainability Steering Committee has been appointed to co-ordinate and integrate sustainability activities on a group-wide basis. Representatives for each of the group's key areas of sustainability focus serve on this committee, which meets quarterly. For more information on the key focus areas, please refer to the MMI website (sustainability section).

The Group Executive Committee, which performs a management review function for the Sustainability Steering Committee, raises relevant issues with the following committees of the board as and when appropriate:

- Audit
- Fair Practices
- Risk and Compliance
- Social, Ethics and Transformation

Final accountability rests with the board and its committees, including the executive committees.

Remuneration Committee

The Remuneration Committee has an independent role to oversee the remuneration process and to consider and approve remuneration-related issues and proposals. In the past year, a key focus was to ensure that the remuneration policy is aligned with, and promotes, the achievement of the strategic objectives of the MMI group. During the year, the committee also played a key role in ensuring that the combined remuneration review of the two merged entities, namely Momentum and Metropolitan, was done in an equitable and fair manner. The committee was also instrumental in finalising the conversion of all non-package employees to a package remuneration structure.

Actuarial Committee

The role of the Actuarial Committee is to impart actuarial expertise effectively to the board, to enhance its understanding of technical actuarial matters; to assist the board in discharging its fiduciary duties toward policyholders and shareholders; and to assist the statutory actuary in fulfilling his professional and statutory duties. During the year, in addition to these roles, the Actuarial Committee played an instrumental role in reviewing the reports of the statutory actuaries on the section 37 transfer and discussing valuation basis harmonisation topics.

Fair Practices Committee

During the year under review, the Fair Practices Committee carried out the following functions as mandated by the board:

- Ensured that the fair treatment of customers is embedded as a core corporate value at all levels within the MMI group.
- Functioned as the Discretionary Participation Committee of MMI's life companies, ensuring the compliance with, and monitoring any changes to the principles and practices of financial management.
- Acted as the independent governance forum responsible for overseeing the implementation of, and adherence to, the Treating Customers Fairly initiative of the Financial Services Board (FSB).

Risk and Compliance Committee

The committee assists the board in discharging its responsibility for the total process of risk management and compliance within the MMI group.

During the preceding year, the committee dealt with various matters relating to risk evaluation, risk management systems and processes, and the group's risk framework. Strategic and emerging risks, as well as specific legal, compliance, forensics, tax, integration and other operational risks, were reviewed by the members. The updated MMI enterprise risk management framework and annual committee evaluation results were reviewed, and the outsourcing policy and revised committee terms of reference approved. The committee regularly reviews MMI's overall compliance with significant laws and regulations.

Audit Committee

The Audit Committee is an independent statutory committee appointed by the shareholders. In addition to its statutory responsibilities, the committee deals with duties as delegated to it by the board of directors. During the year, various issues were tabled, such as: approval of the MMI group financial results; trading updates; review of the integrated report; approval of the risk-based internal audit plan for the financial year; development of the combined assurance model; review of the group's internal financial controls (IFC); recommendations on dividend proposals to the board; reports on the Long-term Insurance Act, 52 of 1998, section 37 transfer; and reports relating to the acquisition of property-related and insurance entities within the group.

The committee discharges its responsibilities with the support of the divisional audit and risk panels, which report to the committee on a quarterly basis. The external and internal auditors attend committee meetings by invitation, present regular reports to the committee, and meet independently with the committee members from time to time. The committee monitors adherence to its roles and responsibilities against a well-structured matrix, which corresponds to the terms of reference of the committee and is in line with both the Companies Act and King III recommendations.

Group internal audit services

The group's internal auditors, who report to the Audit Committee of the board, perform independent reviews of the group's operational and IT activities. They are charged with examining and evaluating the effectiveness of the group's operational activities, the related business risks and the systems of internal, financial and operating control, following a risk-based approach. Major weaknesses are brought to the attention of the Audit, Actuarial and Risk Committees of the board, the external auditors and members of executive management for their consideration and remedial action. The chief audit executive has direct access to the chairman of the Audit Committee.

Divisional audit and risk panels

The Audit Committee is assisted by divisional audit and risk panels, which have been established in terms of its mandate. The audit and risk panels report quarterly to the MMI Audit Committee. The roles and responsibilities, authority, composition, operations and other matters relating to the divisional audit and risk panels are delegated to them by the Audit Committee. The responsibilities of the audit and risk panels in respect of the divisions are essentially the same as those of the Audit Committee to ensure consistency.

Corporate governance report continued

Balance Sheet Management Committee (BSM)

The BSM Committee focuses on the enhancement and protection of the shareholder balance sheet and the impact that market risk sensitivity has on the group's solvency, embedded value and earnings. The committee fulfils an oversight role in respect of the above and assists the MMI board in forming an independent opinion regarding the quality, integrity and reliability of the group's balance sheet management procedures and processes.

Nominations Committee

The Nominations Committee oversees the composition of the board and makes recommendations to the board on various issues, such as director appointments to the MMI main and divisional boards, and the appointment of members to board committees. The committee also plays a critical role in overseeing matters of corporate governance within the group.

During the preceding year, the committee considered its results from the annual board and committee performance assessments. In addition, the governance structures of the MMI group were reviewed and certain fundamental changes proposed, which were subsequently implemented. Issues of succession planning for executive management were also deliberated upon, and a retention strategy and plan is underway.

Appointment and re-election of directors

The Nominations Committee is responsible for identifying fit and proper candidates who could be appointed to the board, and evaluating them against the specific disciplines and areas of expertise required. The appointment, rotation, resignation and removal of directors are done in accordance with the company's constitution and the Companies Act. For more detail, please see the MMI Memorandum of Incorporation on the MMI website (about us: corporate governance section).

Divisional boards

Subsequent to a governance review within MMI, the Momentum Retail, Metropolitan Retail and Momentum Employee Benefits divisional boards were dissolved on 31 December 2012. The statutory boards under the Metropolitan International, Metropolitan Health and Momentum Investments divisions are still in place and fulfil the role and function served by the respective divisional boards.

Ethics

Code of conduct

The group strategic HR executive is responsible for the code of conduct and for ensuring that the requisite behaviour is aligned with MMI's values. A new code of conduct has been developed, and is available on the MMI website (sustainability section).

The code of conduct addresses, among others, the following areas:

- Commitment to regulatory compliance
- Prohibiting giving and receiving of bribes
- Prohibiting facilitation payments
- Guidelines on giving and receiving gifts
- Guidelines on political donations
- Dealing with conflicts of interest
- Other issues such as money laundering and prohibiting anti-competitive practices

Reporting fraud

MMI has a KPMG fraud line in place for all stakeholders to utilise, eg employees, customers and authorities, among others. In order to provide these stakeholders with as many different options as possible to report fraud, the following channels are available:

- KPMG fraud line (anonymous if informant requests)
- Online reporting (anonymous if informant requests) via the intranet and the internet
- Direct contact with our investigators (we have offices in Port Elizabeth, Centurion, Durban and Cape Town)
- Through group internal audit and industrial relations

We have ensured that all the African subsidiaries have either a KPMG fraud line or a web reporting tool or an alternative method of reporting fraud.

Promotion of Access to Information Act, 2 of 2000

For the period under review, there were 35 requests for information, 21 of which were granted and 11 of which are currently under review. Three requests were declined.

Information technology governance

MMI's business is critically dependent on its information systems and information technology (IT). In order to ensure proper governance and risk management of this key business function, the Executive Committee established the IT Steering Committee (ITSC) tasked with overseeing all MMI IT governance and the MMI IT strategy. The board is ultimately responsible for IT governance.

Key responsibilities of the ITSC include:

- Development of an MMI IT philosophy and IT strategy
- IT risk management and assurance
- Approval of major investments in technology (in collaboration with the board and divisional CEOs)
- IT performance measurement and worldwide IT trend analysis

The chairman of the ITSC is the chief integration and operations officer, who also sits on the Executive Risk Committee. All MMI's IT governance issues are reported to the Board Risk and Compliance Committee through the ITSC. MMI has also appointed a chief technology officer (CTO) who takes ownership of and responsibility for the MMI IT philosophy and strategy. The CTO reports to the chief integration and operations officer.

Managing IT risks

The ITSC provides executive oversight and review of MMI's IT risk profile by:

- Ensuring the MMI IT risk management framework is appropriately implemented within all divisions, 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 the IT risk exposures of MMI and the effectiveness of IT risk management processes are appropriately managed
- Monitoring key corrective actions initiated by management and the IT risk management functions
- Reporting key IT risk exposures and the effectiveness of the management thereof to the Executive Risk Committee.

Business disruption and disaster recovery

MMI's business continuity management (BCM) programme ensures that our business will be able to continue its critical business processes should a large-scale incident disrupt business activities. BCM testing and disaster recovery were conducted across the group during the year under review.

The programme is driven and owned by the divisions, with programme guidance, monitoring and reporting provided at group level. Annual activities performed as part of our BCM programme include:

- Updating our business impact analysis and recovery plans
- Reviewing our recovery strategy and plans
- Validating our recovery procedures by exercising them
- Ensuring awareness of BCM throughout the group
- Reporting on our BCM status and capability

Remuneration report

Remuneration strategy

MMI's remuneration strategy is one of the key components of the group's overall human resources (HR) strategy. It supports the HR strategy by helping to build a high-performance, values-driven culture with a view to capitalising on growth and expansion opportunities, raising the group's levels of innovation and entrenching its entrepreneurial approach to business.

Key elements of MMI's remuneration strategy

- The Remuneration Committee, which is responsible to the board, oversees the setting and administration of the remuneration policy, subject to constant monitoring and regular review.
- The remuneration strategy is aligned with the overall business strategy, objectives and values of the group.
- Employees are offered a competitive total remuneration package, benchmarked to the market.
- All remuneration (guaranteed and variable) is differentiated on the basis of performance.
- Guaranteed remuneration is normally set at the median market level; it can, however, be targeted at levels in the upper quartile for key positions where a premium is payable due to the scarcity and/or technical nature of skills.
- Three performance components are appraised, on the basis of a robust performance management system – group, divisional and individual performance.
- Subjective as well as objective measures are used for individual performance appraisal purposes.
- The strategy differentiates between level of accountability (related to the diversity and complexity of decisions taken plus the degree of responsibility and/or level of authority involved in the job) and pay band (related to the going market rate for the particular job).
- Pay bands are broad and allow for flexibility.
- Individuals are remunerated for their unique individual contribution (individual worth) as well as for their contribution to/collaboration in meeting team objectives.
- The short-term incentive (or performance bonus) scheme is utilised to promote goal attainment (mutually agreed, strategically aligned outcomes/targets that contribute to the successful implementation of the group's strategic business plans) in both the short and medium term.
- A long-term incentive plan, focusing on the realisation of the group's vision for the future and aligning performance with longer-term strategic imperatives such as sustainable value-add for all stakeholders, has also been implemented.
- Pay-for-performance incentive systems have also been instituted on the basis of predefined quantitative and qualitative measures.
- Employees in the risk and compliance function have their remuneration determined independently of the various divisions in MMI, with performance measures based principally on the achievement of the objectives of their function.

MMI's short-term incentive (performance bonus) scheme

A non-guaranteed performance bonus, paid annually as a percentage of an individual's total guaranteed remuneration package, is the group's key short-term incentive scheme.

Why a performance bonus?

- Performance bonuses are awarded for the attainment of pre-set, business-aligned performance objectives.
- Bonuses serve as both motivation and reward for scheme participants who achieve or exceed these performance objectives.

Who qualifies for a performance bonus?

- Only employees with a high level of accountability are eligible to participate in the performance bonus scheme.
- Other high-performing employees are eligible for participation in a budgeted short-term incentive payment pool, based on a percentage of the total payroll.

What performance objectives have to be met?

- Performance objectives are set at three levels: group, divisional and individual.
- To strengthen the link between pay and individual performance, strategic objectives, as set out in the group and divisional operating plans, are translated into personal goals, including knowledge, skills and competencies to be acquired.
- Personal goals are agreed upfront, ie at the start of each performance period.

Who approves the performance objectives?

- All group targets have to be approved by the Remuneration Committee of the board.
- Individual goals/targets have to be agreed with the employee's line manager or team leader.

How is performance appraised?

- The group and divisional components of performance are appraised on the basis of a balanced scorecard comprising five metrics of both a financial and non-financial nature. The same metrics are applied in part to individual performance in line with the individual's level of accountability.
- Group performance is evaluated by the Remuneration Committee (Remco), divisional performance by the group and deputy group CEO and individual performance in terms of MMI's performance management system.

How are performance bonuses paid?

Provided all the relevant group, divisional and personal performance criteria are met, performance bonuses are determined annually and paid as set out below:

- Performance bonuses are not guaranteed.
- Performance bonuses above a certain threshold level are paid out in two or three tranches, depending on the overall amount involved. Bonuses below the threshold level are paid in cash by way of a lump sum payment once the bonus has been determined.
- Bonus amounts not yet paid can be withheld if the performance of the group, division or individual deteriorates significantly prior to the pay-out dates of the remaining tranches.

Balanced scorecard

The balanced scorecard incorporates five key performance indicators/metrics, all of which are reviewed annually.

For 2013, the following metrics applied:

- Three financial metrics
  - Core headline earnings
  - Embedded value (EV) of new business
  - Integration expense savings
- Two non-financial metrics
  - Strategic projects
  - Overall BEE scorecard
    - dti assessment
    - Employment equity (staff composition)
- Performance and bonus allocation criteria have been set for three clearly differentiated categories of performance: threshold performance, target performance and outperformance.

A five-point rating scale is used to assess performance:
1 = underperformance, 2 = threshold performance,
3 = target performance, 4 and 5 = outperformance

MMI's scorecard contains the group's objectives. In addition to that, each division has its own scorecard, which aligns with the group scorecard, but which contains division-specific targets and objectives.

Meeting the group's objectives is paramount. Performance against the group's targets determines the size of the aggregate bonus pool. The performance of each division against its scorecard determines how the aggregate bonus pool is allocated between divisions.

For the 2014 financial year the integration expense savings metric will fall away and a greater emphasis will be placed on ROEV in the balanced scorecard.

Non-financial metrics

Strategic projects

These are strategic initiatives that have been identified as essential to the ongoing success of MMI. They have been included in order to ensure that the focus of the scorecard is not exclusively on short-term profitability but gives due recognition to initiatives expected to add value over the longer term by improving the group's strategic positioning in areas other than the purely financial.

Overall BEE scorecard

The dti assessment (or its industry-specific equivalent, the Financial Sector Charter, once the latter has been gazetted) takes into account the various pillars of broad-based black economic empowerment, including all labour and transformation-related policies and practices: eg ownership, employment equity, skills development, procurement, socio-economic development and enterprise development.

The remainder of the scorecard is assessed on the basis of meeting the group's employment equity targets, ie the composition of its workforce in terms of representation by previously disadvantaged population groupings in terms of the targets set in its 2012 employment equity plan.

Short-term incentive payments

These payments have been instituted to motivate employees with lower levels of functional accountability who are not eligible to participate in the performance bonus scheme to exceed performance expectations.

- Only high performance and/or consistent outperformance is recognised and rewarded.
- Payments are made from a budgeted pool, based on a percentage of the total guaranteed remuneration packages of all employees and not on group or divisional performance.

Long-term incentive plan (LTIP)

- The purpose of the LTIP is to attract, motivate, reward and thus help to retain employees who are able to influence the performance of the group on a basis that aligns their interests with those of the group's shareholders.
- The LTIP is in essence a cash-settled share scheme. Participants are paid a cash bonus calculated using the value of an MMI Holdings Ltd share on the JSE.
- In the first tranche of the LTIP, qualifying employees were allocated notional (share-based) performance units in a weighted combination of performance (acting as a performance driver) and retention (acting as a retention mechanism) units, all of which will vest only after three years. A second tranche was issued in the 2013 financial year, covering the years 2013 to 2015, under the same conditions as the first tranche. The intention is to issue tranches on an annual basis (subject to remco and board discretion) to cover rolling periods of three years each.
- The current three-year group performance measurement period covers the financial years 2012 to 2014 (1 July 2011 to 30 June 2014) and the group's performance will be averaged over that period to determine the extent to which the performance criteria have been met.
- The primary metric is the group's return on embedded value (ROEV), measured against the country's growth in gross domestic product (nominal GDP) and against the average ROEV achieved over the three years by the five largest insurance groups in South Africa. The targeted return on embedded value is nominal GDP growth + 3% per annum.
- Vesting rates of the performance units are determined according to three cut-off points: threshold performance, target performance and outperformance.
- Remco may in its sole discretion waive or amend the performance criteria for performance units should extraordinary circumstances arise.
- If deemed appropriate by remco, the performance criteria for the award of future performance units may be different, taking into account the prevailing economic conditions.

Disclosure of directors' remuneration

King III and the Companies Act require that the individual remuneration of all prescribed officers should be disclosed. The identified prescribed officers of MMI are Nicolaas Kruger, Ngao Motsei, Preston Speckmann and Wilhelm van Zyl. Their remuneration is set out on page 70.

Details of the remuneration of executive and non-executive directors are provided on page 70.

Compliance

MMI's group compliance unit has its own head but functions largely autonomously via decentralised compliance officers based in each of the group's strategic operating divisions. The unit forms part of the corporate governance department, reporting to the corporate governance executive who in turn reports to the group finance director. The business unit also reports on its activities to the Risk and Compliance Committee of the board.

No material compliance breaches were reported during the period under review. We are still finalising some binder and outsourcing agreements in terms of the Long-term Insurance Act, 52 of 1998.

As is the case for the rest of the financial services industry, the volume of legislation with which the group is having to comply, is rapidly increasing. As a result, compliance systems are being monitored and updated on an ongoing basis to ensure that these refinements are timeously incorporated into the group's processes and product offerings.

The following legislation is having, or has the potential to have, a material impact on MMI:

Legislation	Management
FAIS	A business plan, procedures and controls have been instituted to ensure compliance with the FAIS regulatory exam requirements. Ongoing oversight and monitoring are being conducted to track and manage progress in line with business requirements. A large percentage of our representatives service the lower-income market. These representatives are complying in terms of the regulatory exemption which allows them to complete a bespoke exam currently being developed by the FSB.
National health insurance system	Metropolitan Health has convened a committee to fully assess the impact of this development on business.
Protection of Personal Information Bill	MMI has extensively raised awareness and investigated the impact of this legislation on the group. It also has representation on the ASISA working group that is drafting the codes of conduct.
Solvency Assessment and Management (SAM) regime	The FSB is currently intending to implement both the standardised and internal model approaches under the SAM regime by January 2016 for short and long-term insurers, with proposed implementation of certain interim measure requirements in terms of group supervision, governance, internal controls and risk management being targeted for 2013. MMI is actively participating in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in the light of local and international developments. MMI participated in the second South African quantitative impact study (QIS2).
Treating Customers Fairly (TCF)	MMI supports the TCF initiative and believes that it complements our existing client-centric approach to doing business. MMI's divisions are already exploring the implications of the proposed new regulatory framework on our business. MMI has representation on the ASISA forums interacting with the FSB in respect of the development of TCF regulations. During the financial year MMI also participated in the FSB's pilot TCF self-assessment exercise.
Twin Peaks	In honouring its commitment to implement higher financial standards, government announced reforms in 2011 to make the financial sector safer, better and accessible to all. One of the major initiatives which will affect MMI is the introduction of a "twin peaks" model to regulate the financial sector. By way of this model the oversight of market conduct regulation (eg how MMI must conduct its business and treat its clients) will be separated from prudential legislation (regulation of solvency and liquidity requirements), the FSB and South African Reserve Bank being the responsible institutions, respectively. A consultative process is being followed, allowing MMI to contribute, which will lead to the finalisation of the legislative proposals. Supporting legislation is expected in 2013/2014 with the detail implemented over several years thereafter.

Board evaluation

In line with business best practice and King III, MMI carried out an appraisal of the performance of the board, its committees and individual directors during May 2012. The appraisal was undertaken by means of a self-assessment questionnaire and was conducted over a three-week period. There was 100% participation by all the directors. In general, the appraisals revealed that the board and committees were performing well. Areas identified as requiring development were acknowledged and discussed at MMI board level. The appraisal process is conducted annually and a further one has been completed during July 2013. The results of the current appraisal were tabled at the MMI Nominations Committee and MMI board meetings in September 2013.

Share dealing and insider trading

The group has a share dealing code, applicable to all directors and employees, that imposes closed periods in order to prohibit dealing in the company's shares before the announcement of interim and year-end financial results as well as in any other period considered to be price sensitive, having regard to the Listings Requirements of the JSE Ltd. A closed period has been defined as the period from the end of a particular financial reporting period to the date on which the results relating to that period are released. Any period during which the group is trading under a cautionary announcement is included.

All employees of the group are prohibited from trading in the listed company's shares during closed periods unless clearance to trade has been obtained from the group company secretary under the direction of the chairman of the board. The group company secretary undertakes the administration needed to ensure compliance with this code, also under the direction of the chairman of the board.

The code goes further by restricting dealings of directors and other senior personnel in any security that may be affected by a transaction or proposed transaction.

Financial reporting

The group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are supported by reasonable judgements and estimates. The preparation is supervised by the group finance director, Preston Speckmann, BCompt (Hons), CA(SA). The directors are responsible for the financial statements of the group and the company, and are satisfied that they fairly present the financial position, performance and cash flows of the group and the company as at 30 June 2013. The external auditors are responsible for independently auditing the financial statements (see report on page 96). The embedded value statement is also subject to an independent review.

Shareholder communication

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

Group company secretary

Our group company secretary, Francois D Jooste, sadly passed away during May 2013. An acting group company secretary, Maliga Chetty (BA, BProc, LLM, CIS) was appointed during April 2013. She was appointed as company secretary in September 2013. She has unrestricted access to the chairman of the board and the chairpersons of all board committees, including the group CEO, and plays a vital role in ensuring the effectiveness of the board and its committees. The board of directors has satisfied itself that she is qualified and competent, in accordance with applicable legislation, to act as the group company secretary. There is an arm's length relationship between the board and the company secretary in that the objectivity and independence of the company secretary are not unduly influenced. The company secretary's business and postal addresses are: 268 West Avenue, Centurion 0157 and PO Box 7400, Centurion 0046.

Directors' interests in contracts

As a director of MMI's strategic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd, Vuyisa Nkonyeni has an interest in the contractual relationship between the two parties.

The following non-executive directors are also directors of RMI Holdings Ltd: Leon Crouse and Khehla Shubane.

RMI Holdings Ltd has a 24.5% shareholding in MMI.

Directors' shareholdings

The direct and indirect shareholdings and share dealings of the directors of MMI Holdings Ltd as at 30 June 2013 are set out on page 69. Directors have access to the group's shares through the open market.

Delegation of authority

The board has delegated the management of the group to the group CEO. In delegating these powers, the board has imposed certain restrictions, conditions and limits that they believe to be appropriate for the effective exercise of such delegated powers. The board reviews the delegation of authority annually, and it is revised as deemed appropriate. Despite having delegated power in this manner, it is still the ultimate duty of the board to monitor the performance of management.

Members of the MMI Holdings Ltd board and committees as at 30 June 2013

Directors	Independent committee members	Audit	Actuarial	Remune-ration	Social, Ethics and Transfor-mation	Fair Practices	Risk and Compliance	Balance Sheet Manage-ment	Nomi-nations
JJ Njeke (chairperson)									✓*
Johan Burger (deputy chairperson)								✓*	✓
Nicolaas Kruger (group CEO)			✓		✓	✓	✓	✓	
Wilhelm van Zyl (deputy group CEO)			✓		✓***	✓***	✓***		
Preston Speckmann (group finance director)							✓	✓	
Ngao Motsei# (executive director)									
Leon Crouse								✓**	
Blignault Gouwso			✓*			✓*		✓	
Fatima Jakoet		✓					✓*		✓
Niel Krige									
Jabu Moleketi					✓				
Syd Muller		✓			✓*				
Vuyisa Nkonyeni							✓		
Sizwe Nxasana				✓*					✓@
Khehla Shubane					✓				
Frans Truter		✓*							✓
Ben van der Ross				✓	✓	✓			
Johan van Reenen				✓			✓		
Mary Vilakazi		✓	✓					✓	
Stephen Jurisich	✓		✓						
George Marx	✓					✓			
Jaco van der Walt	✓							✓	

* Chairperson
** Appointed 22 August 2012
*** Resigned temporarily 4 September 2012
# Appointed 26 November 2012
@ Appointed 13 February 2013
o Retires after AGM in November 2013

Corporate governance report continued

Attendance at meetings from 1 July 2012 to 30 June 2013

Directors	Holdings board	Audit	Actuarial	Remune-ration	Social, Ethics and Transfor-mation	Fair Practices	Risk and Compliance	Balance Sheet Manage-ment	Nomi-nations
Meetings held	4	5	4	5	3	2	3	4	3
Members	Meetings attended								
JJ Njeke	4*				1[Δ]				3*
Johan Burger	4							3*	1
Nicolaas Kruger	4		4		2	2	2	3	
Wilhelm van Zyl	4		3		–***	1***	–***		
Preston Speckmann	4						3	3	
Ngao Motsei	2[#]								
Leon Crouse	4							1**	
Blignault Gouws	4		4*			2*		4	
Fatima Jakoet	4	5					3*		3
Niel Krige	4								
Jabu Moleketi	3				3				
Syd Muller	4	5			3*				
Vuyisa Nkonyeni	4						3		
Sizwe Nxasana	4			5*					–[@]
Khehla Shubane	4				3				
Frans Truter	4	5*							3
Ben van der Ross	4			4	3	2			
Johan van Reenen	4			5			3		
Mary Vilakazi	4	4	3					4	
Stephen Jurisich[o]			4						
George Marx[o]						2			
Jaco van der Walt[o]								4	

* Chairperson
** Appointed 22 August 2012
*** Resigned temporarily 4 September 2012
[#] Appointed 26 November 2012
[@] Appointed 13 February 2013 (no meetings took place after this date)
[o] Independent committee members
[Δ] Resigned 3 September 2013

MMI divisional audit panels membership and attendance at meetings from 1 July 2012 to 30 June 2013

Directors	Momentum Retail	Metropolitan Retail	Momentum Investments	Metropolitan International	Metropolitan Health	Momentum Employee Benefits
Meetings held	4	4	4	4	4	4
Members	Meetings attended					
Wilhelm van Zyl					1**	
Preston Speckmann					3	
Fatima Jakoet				4	4*	4
Syd Muller		4		4	4	
Frans Truter	4*	4*	4*	4*		4*
Mary Vilakazi	3	3	3			
Ethel Matenge-Sebesho***			4			

* Chairperson
** Resigned 12 November 2012
*** Independent member – not MMI director

Directors' shareholding as at 30 June 2013

Directors' MMI shares

Listed shares	Direct beneficial '000	Indirect beneficial '000	To be delivered '000	Total '000
Nicolaas Kruger	64		315[1]	379
Wilhelm van Zyl	400			400
Johan Burger	12	101	840[1]	953
Blignault Gouws		210		210
Niel Krige		408		408
Syd Muller	8	42		50
Sizwe Nxasana	–		1 116[1,2]	1 116
Khehla Shubane		7		7
Frans Truter	44	433		477
Johan van Reenen		40		40
Morris Mthombeni*	29			29
John Newbury**		75		75
Total listed shares	557	1 316	2 271	4 144

* Resigned 31 August 2012

** Retired 26 November 2012

1 Unbundling linked to FirstRand Ltd: shares to be delivered in terms of the FirstRand Executive Share Purchase Transaction

2 Unbundled MMI shares to be delivered resulting from the increased participation in the FirstRand Executive Share Purchase Transaction

Trades in MMI shares 2012/2013	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Johan Burger	2012-09-17	R20.54	100 672	Sale	Direct
Syd Muller	2012-09-21	R20.67	42 043	Purchase	Indirect
Sizwe Nxasana	2012-09-26	R20.89	108 416	Sale	Direct
Frans Truter	2012-10-01	R19.99	12 500	Purchase	Indirect
Blignault Gouws	2013-06-13	R21.26	102 678	Sale	Indirect

Directors' RMI shares

Listed shares	Direct beneficial '000	Indirect beneficial '000	Total '000
Nicolaas Kruger	8		8
Wilhelm van Zyl	8	64	72
Johan Burger		1 184	1 184
Blignault Gouws		57	57
Jabu Moleketi	9	14	23
John Newbury		37	37
JJ Njeke	17		17
Sizwe Nxasana	7		7
Khehla Shubane		6	6
Frans Truter	21	145	166
Total listed shares	**70**	**1 507**	**1 577**

Trades in RMI shares 2012/2013	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Jabu Moleketi	2012-12-18	R21.71	9 260	Purchase	Direct
Frans Truter	2012-09-26	R21.50	5 000	Purchase	Indirect
Blignault Gouws	2013-06-24	R23.19	57 345	Purchase	Indirect

Corporate governance report continued

Directors' emoluments

Directors	Months		Fees R'000		Salary R'000		Performance bonus R'000	
	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012
Nicolaas Kruger	**12**	12			**4 795**	4 721	**6 333**	5 151
Wilhelm van Zyl	**12**	12			**4 100**	3 831	**5 573**	3 980
Preston Speckmann	**12**	12			**2 972**	2 777	**3 455**	1 275
Ngao Motsei[2]	**7**	–			**1 618**	–	**1 405**	–
Morris Mthombeni[3]	**2**	12			**3 037**	2 292	**–**	3 348
Fatima Jakoet	**12**	12	**1 626**	2 153				
JJ Njeke	**12**	12	**2 013**	1 435				
Johan van Reenen	**12**	12	**924**	1 342				
John Newbury[4]	**5**	12	**473**	1 516				
Kgomotso Matseke	**–**	4	**–**	355				
Mary Vilakazi	**12**	12	**1 600**	1 764				
Syd Muller	**12**	12	**1 495**	1 567				
Ben van der Ross	**12**	12	**1 479**	1 734				
Blignault Gouws	**12**	12	**1 255**	1 269				
Frans Truter	**12**	12	**2 569**	2 686				
Johan Burger	**12**	12	**1 292**	674				
Khehla Shubane	**12**	12	**747**	790				
Laurie Dippenaar	**–**	5	**–**	740				
Paul Harris	**–**	5	**–**	277				
Jabu Moleketi	**12**	12	**751**	865				
Sizwe Nxasana	**12**	12	**683**	665				
Thys Visser	**–**	5	**–**	268				
Vuyisa Nkonyeni	**12**	7	**840**	428				
Niel Krige	**12**	7	**747**	546				
Leon Crouse	**12**	1	**794**	75				
			19 288	21 149	**16 522**	13 621	**16 766**	13 754

[1] Share-based payment charge relating to the group's existing share schemes for the year. This will be reflected under long-term incentive payments when paid.

[2] Appointed 26 November 2012

[3] Resigned 31 August 2012 (included in the salary figure is a loss of office payment of R2 073 857)

[4] Retired 26 November 2012

	Long-term incentive payments R'000		Pension fund R'000		Total R'000		Share-based payment charge[1] R'000	
	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012
	8 241	8 980	**395**	365	**19 764**	19 217	**8 163**	8 617
	6 598	5 885	**509**	430	**16 780**	14 126	**9 057**	7 448
	3 265	2 374	**311**	408	**10 003**	6 834	**5 195**	4 097
	–	–	**258**	–	**3 281**	–	**1 006**	–
	3 765	5 214	**194**	462	**6 996**	11 316	**–**	4 136
					1 626	2 153		
					2 013	1 435		
					924	1 342		
					473	1 516		
					–	355		
					1 600	1 764		
					1 495	1 567		
					1 479	1 734		
					1 255	1 269		
					2 569	2 686		
					1 292	674		
					747	790		
					–	740		
					–	277		
					751	865		
					683	665		
					–	268		
					840	428		
					747	546		
					794	75		
	21 869	22 453	**1 667**	1 665	**76 112**	72 642	**23 421**	24 298

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2013.

The Audit Committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the Audit Committee by the board of directors of the company. This report includes both sets of duties and responsibilities.

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 divisional audit and risk panels. The divisional audit and risk panels report to the MMI Audit Committee on a quarterly basis. The Audit Committee includes representatives of the divisional audit and risk panels and is composed of independent non-executive directors.

In addition, the CEO, deputy CEO and the group finance director attend Audit Committee meetings. The external and internal auditors attend Audit Committee meetings by invitation. The external and internal auditors meet independently with the Audit Committee when required.

Terms of reference

The Audit Committee has terms of reference which were approved by the board. The Audit Committee has regulated its affairs in compliance with the terms of reference and has discharged the responsibilities set out therein.

The terms of reference, including roles and responsibilities, were aligned with the requirements of King III and the Companies Act, 2008, as well as other regulatory requirements. In instances where King III principles and requirements have not been applied, these have been explained in the corporate governance statement, included elsewhere in the integrated report. Please see page 57.

External audit

The Audit Committee is satisfied with the independence and objectivity of the external auditors as set out in section 94(8) of the Companies Act, 71 of 2008, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal audit governance processes within the audit firm support and demonstrate its claim to 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 34 on page 198 of the annual financial statements.

The Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Ms Alsue du Preez as the designated auditor responsible for performing the functions of auditor, for the 2013 year. The Audit Committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisers.

Internal audit

The Audit Committee is responsible for ensuring 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 head of internal audit has a functional reporting line to the Audit Committee chairman and an operational reporting line to the group finance director.

Internal Audit operates according to the internal audit charter which was approved by the board. The risk-based internal audit plan for the 2014 financial year was approved by the committee on 24 May 2013.

The Audit Committee is also responsible for the assessment of the performance of the chief audit executive and the internal audit function.

The group is currently implementing a combined assurance methodology.

Internal financial controls (IFC)

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

Nothing has come to the attention of the Audit Committee to indicate a material breakdown in the internal financial controls during the financial year. This assessment was based on the results of the documented review noted above, information and explanations given by management and the group internal audit function as well as discussions with the independent external auditors on the results of their audits.

Group finance director

The Audit Committee has satisfied itself that the group finance director has appropriate expertise and experience.

Governance of risk

The board has assigned oversight of the company's risk management function to the Risk and Compliance Committee. The chairperson of the Risk and Compliance Committee is also a member of the Audit Committee to ensure that information relevant to these committees is transferred effectively. The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting, 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 2013 and submits that management is presenting 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 (IFRS).

Sustainability

MMI is fully committed to good sustainability principles. The Group strives to be financially sound, socially responsible as well as environmentally friendly, with good corporate governance as the overarching principle. In this regard, MMI supports the recommendations as set out in King III. For further information please refer to the MMI website (sustainability section).

Going concern

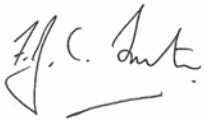
The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management, of the going concern status of the company and has made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 95 of the integrated report.

Meetings and effectiveness review

Number of meetings held	5
Members' attendance	
Fatima Jakoet	5
Syd Muller	5
Frans Truter*	5
Mary Vilakazi	4

* Chairman

During the period under review, the effectiveness of the Audit Committee was assessed by the Audit Committee members, and the results were shared with the board. The Audit Committee confirms that for the period under review it discharged its duties and responsibilities in accordance with the terms of reference.



Frans Truter
Chairman of the Audit Committee
September 2013

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Divisional reviews

Momentum Retail
Metropolitan Retail
Momentum Employee Benefits
Metropolitan International
Momentum Investments
Metropolitan Health

momentum

Momentum Retail

Mark van der Watt
Chief executive officer

Nature of our business

The division provides wealth creation and preservation, insurance and income products to service the needs of the middle to upper-income and wealth market segments in South Africa. It is also responsible for distributing other Momentum-branded products in the MMI group's portfolio as well as for executing the Momentum brand strategy.

Vision

To enhance the financial wellness of individuals, families and businesses in South Africa.

Key strengths

- Delivery of a comprehensive client-value proposition spanning product, service and financial advice
- National intermediary distribution footprint
- Excellent differentiated service
- Ability to manage closed books and integrate businesses successfully
- Innovative product and advice solutions that are leaders in their respective fields

Distribution (as at 30 June 2013)

- > 6 000 independent financial advisers
- 580 tied agents

Key profit drivers

- Sales volumes and mix
- Persistency
- Expense management
- Investment performance
- Client service levels

Operational focus areas

- Improve value of new business
  - Quality of business
  - Driving operational efficiency
  - Grow recurring premiums
- Increase distribution
  - New distribution initiatives
  - Grow agency force
  - Embed Financial Wellness
- Emphasis on innovation
- Increase penetration in the middle-income market

External challenges and opportunities

Challenge/opportunity	Resultant actions
Highly regulated operating environment • Solvency Assessment and Management (SAM) regime • Treating Customers Fairly (TCF)	• Deploying sufficient actuarial and risk management resources to ensure compliance, while minimising associated costs and deriving business benefits where possible • Launched project to improve TCF readiness • Continuing to focus on providing superior client value and ensuring that products and services are client-centric
Upper-income market growth	• Expanding existing distribution models • Growing agency force contribution • Diversifying into middle-income market • Growing share of short-term insurance market
Rapidly shifting distribution landscape	• Reviewing relevance of current distribution models and making adjustments where necessary • Developing and implementing various new distribution models
Innovative client value proposition	• Created new client value proposition underpinned by concept of financial wellness • Aligning full spectrum of divisional activities with new client value proposition • Rewards programme, Multiply, continues to gain traction through integration into products and is providing significant value to clients
New savings solution for all stakeholders	• Developing new-generation savings solution to meet requirements of all stakeholders
Margin improvement	• Changing mix of products sold • Reviewing profitability of existing products • Developing new product solutions • Launch of the Wealth Portfolio Management solution
Relatively low consumer awareness of Momentum brand	• Building Momentum brand across current and potential target markets: – Sponsorship of one-day cricket in South Africa providing excellent exposure – Financial Wellness Index in conjunction with Unisa
Small share of middle-income market	• Focusing on permeating this market by developing and implementing products, services and distribution channels necessary to successfully penetrate it

Internal challenges and opportunities

Challenge/opportunity	Resultant actions
Becoming more client-centric	• Creating a division-specific client culture • Implementing systems of continuous feedback from clients and intermediaries • Introducing a new client interaction management system
Merger synergy	• Odyssey conversion completed successfully • Merger-related savings exceeded • Incorporating best of both cultures • Capitalising on full spectrum of group expertise and experience
Enhancing efficiencies	• Scrutinised all aspects of divisional business to ensure optimum operational efficiency and cost-effectiveness • Successfully completed operational efficiency exercise
Maximising benefits of in-depth market knowledge	• Developed client segmentation model
Raising level of divisional transformation	• Developing division-specific broad-based black economic empowerment scorecard with targets, strategies and implementation plans for each element
Attracting and retaining talent	• Ensuring Momentum remains employer of choice by strengthening employee value proposition if and where necessary

Metropolitan Retail

Phillip Matlakala
Chief executive officer

Nature of our business

Metropolitan Retail concentrates on individuals in the low to middle-income groups, with entry level households of monthly income of less than R18 000 being its key area of focus. Its core business is meeting the financial services needs of these clients and their extended families in both the formal and informal sectors. Products provided embrace the full spectrum of risk, savings, financing, income generation and income protection needs.

Vision

To be the first-choice financial services provider in its core target market through its in-depth understanding of customers' expressed and unexpressed needs, and to continually align the entire division to putting its customers first.

Key strengths

- Access to service
- Brand strength
- Product diversity
- Distribution diversity and strength
- Operational efficiency
- In-depth understanding of core market
- Fraud detection (payment risk)
- Strong focus on business sustainability and quality (conservation rules)

Distribution (as at 30 June 2013)

- More than 100 sales offices countrywide
- Four outbound call centres
- Two customer services call centres
- Area for Customer Enrolment (ACE) – customer enrolment centre
- 4 251 tied agents
- Broker distribution – 2 945 brokers
- Alternative distribution – 21 partners

Key profit drivers

- Existing business:
  - positive insurance risk experience
  - release of margins
- New business:
  - volume
  - mix
- Conservation of new and existing business
- Expense management
- Claims management
- Investment performance

Risk	Resultant actions
Regulatory environment	
Regulatory exams (FAIS)	• Potential restructuring required in order to leverage marketability of agents that have passed exams • Successful lobbying for alternative regulatory examination for intermediaries working in division's target market • Ongoing focus on developing alternative, advice-free product range and sales process
Further changes to intermediary remuneration (risk product commission structure)	• Expanding existing distribution channels where relevant and exploring new partnership strategies
Micro insurance	• Redesigning, re-pricing and closing existing products as appropriate to counter appeal of micro insurance products • Ongoing monitoring and review of micro insurance environment and the division's response to it
Binders and outsourcing agreements	• Reviewing all existing agreements to ensure compliance • Making a concerted effort to retain current service providers
Increased compliance requirements and associated costs	• Increased capacity of legal and compliance function where appropriate
Solvency Assessment and Management (SAM) regime	• Embedded divisional risk management culture through establishment of professionally staffed risk division and appropriate multi-disciplinary risk workgroups • Resourcing actuarial and risk management functions to accommodate increased workload • Clear understanding/education initiatives throughout the business
Economic environment	
Unemployment	• Continuous review of target market to provide diversification across and within sectors to reduce concentration risk
Inflation	• Establishing enhanced external intelligence and market research function to understand the impact of inflation on divisional market • Ongoing work to develop strategies to meet market needs and understand affordability • Consumer education and enablement strategies
Interest rates	• Monitoring and managing implications and impact on pricing, liabilities and asset risks through divisional investment committee

Opportunities	Resultant actions
Regulatory environment	
Treating Customers Fairly (TCF)	• Ensuring focus on providing fair value to customers is at least as strong as focus on production and value of new business • Ongoing monitoring of value offered by products to customers • Focus on "customer first" • Increase focus on consumer education and enablement strategies
Micro insurance	• Developing and marketing products designed specifically to counter the appeal of micro insurance products • Ongoing monitoring and review of micro insurance environment and divisional response to it
Solvency Assessment and Management (SAM) regime	• Implementing appropriate capital and risk management disciplines to meet divisional needs • Ensuring all divisional practices are SAM compliant and integrated with the group approach • Clear understanding/education initiatives throughout the business
Operational efficiency	
Process realignment enabled by systems renewal (to be rolled out incrementally over four years)	• Driving enhanced operational efficiencies in call centres in particular, eg improved conversion of leads to sales, higher quality of sales • Reviewing all processes to develop better integrated and more cost-effective businesses • Understand and review full expense base and allocation
Sharper market focus/segmentation insights	• Continuing development and roll-out of market segmentation model
Partnerships and alliances	• Ongoing engagement with retailers, banks, unions and other centres of influence to provide appropriate products to meet the needs of their customers, members and affiliates
Diversified distribution and servicing opportunities	• Combining employed and independent face-to-face distribution as well as utilising both in- and outbound call centres and interacting through partnerships • Maintain largest agency force

Operational focus areas
• Process and systems renewal
• Diversify and grow distribution
– Partnership strategies
– Mastering distribution initiative
– Embed segmentation insights
• Expense management
• Persistency management
• Regulatory environment including SAM

momentum

Momentum Employee Benefits

Etienne de Waal
Chief executive officer

Nature of our business

Momentum Employee Benefits provides administration, insurance and investment solutions to employers and retirement funds in both the large corporate and the small, micro and medium enterprise (SMME) market segments. In addition, it provides support to the employee benefits operations of Metropolitan International in a number of African countries. The division is a preferred provider in the group insurance and investment market, evidenced by the fact that it is the largest group risk insurer by market share, plays a significant role in the capital protection investment market and has a large share of the umbrella retirement fund market.

Vision

To be the preferred partner in facilitating an employer's liability management and enhancing its employees' financial wellness through the provision of health, insurance, investment and administration solutions in South Africa.

Key strengths

- Reach and diversity of distribution footprint
- Strength of distribution relationships
- Management of incapacity products
- Insurance pricing skills
- Ability to leverage clinical health skills to enhance leadership in incapacity management
- Liability-driven investment structuring and pricing skills
- Willingness and ability to innovate and change the game

Distribution channels

- Direct marketing
- Retail agents
- Retail brokers
- Specialised agents
- Specialised brokers
- Specialist consultants

Key profit drivers

- Asset-based charges on investment and annuity business
- Risk business margins
- Fee income on administration business
- Operational efficiencies

Operational focus areas

- Optimise distribution
- Enhance client-centricity
- Entrench position as leading incapacity insurer
- Close collaboration with the health business
- Diversify earnings
- Strengthen brand presence in target markets

Risks	Resultant actions
Regulatory environment	
There is some uncertainty regarding a number of regulatory reforms in the retirement industry including the introduction of a national social security fund (NSSF)	• Position our business to benefit optimally from a number of opportunities that regulation changes will bring about, eg increased preservation of retirement savings • Ensuring that our operations are as efficient and cost-effective as possible • Simplifying products where appropriate and accessing markets through new channels • Planning to achieve optimum competitiveness in those markets that the division believes will be least affected by the potential reforms, eg disability income protection
Increased compliance requirements and associated costs	• Enhancing the capacity of legal and compliance function
Solvency Assessment and Management (SAM) regime	• Resourcing actuarial and risk management functions to accommodate much heavier workload for implementation of the new regime • Ensuring the retention of key specialist employees • Ensuring optimal product design so as to avoid capital inefficiencies in products sold
Economic environment	
Unemployment	• Utilising a full spread of distribution channels to target wide-ranging markets, thereby achieving diversification across regions, industries and employer sizes to reduce concentration risk
Inflation	• Ensuring that most divisional sources of income are linked to salary levels and asset values, thus providing a broad hedge against rising inflation
Interest rates	• Ensuring that the divisional investment committee monitors and manages interest rate implications and impact on pricing, liabilities and asset risks
External environment	
Growing commoditisation of products and increased competition in the financial services industry	• Continuing to deliver outstanding service, together with good value for money • Providing the high level of confidence associated with a large financial institution
Earnings volatility associated with group risk profits and large annuity deals	• Ensuring that products are well diversified across type, region, distribution channel and industry

Opportunities	Resultant actions
Regulatory environment	
Treating Customers Fairly (TCF)	• Ensuring focus on providing fair value to customers is at least as strong as focus on production and value of new business
Solvency Assessment and Management (SAM) regime	• Ensuring that group-wide implementation of SAM has division-specific relevance in terms of providing much more detailed information on risk management and capital utilisation
Merger-related	
Operational efficiency and expense control	• Consolidating the number of systems we use and the adoption of best-of-breed products and processes
Culture synergy	• Incorporating best of both Momentum and Metropolitan existing cultures
Increased talent pool	• Capitalising on full spectrum of expertise and experience at division's disposal

METROPOLITAN

Metropolitan International

Mervyn Cookson
Chief executive officer

Nature of our business

Metropolitan International concentrates on satisfying the short and long-term insurance, savings and investment, health insurance and healthcare administration, asset management and pension fund administration needs of retail and institutional customers in selected African countries.

Vision

To be a significant player and provider of choice in satisfying clearly identified financial services needs of customers in selected African countries.

Key strengths

- Wide geographic footprint across 12 African countries, with multiple lines of business
- Sourcing and utilising customer and market-based business intelligence to identify and implement business solutions
- Implementing unique country management strategies by capitalising on country-specific strengths and simultaneously mitigating divergent risks and weaknesses
- Developing differentiated product and service solutions for individual African countries
- Managing all relationships on a partner and stakeholder-centric basis
- Implementing a single IT platform per line of business
- Strong brand presence and significant market share in several southern African countries

Distribution channels

- Brokers
- Employed agents
- Unions
- Co-operatives
- Mobile operators
- Internal employees

Rationale for African expansion

- Diversify earnings
- Higher GDP growth than South Africa
- Low penetration of insurance
- Growth opportunities

Key profit drivers

International undertakes retail, employee benefits, health administration and investment business in Africa; therefore, the profit drivers are the same as for the South African divisions.

Divisional reviews continued

Countries of operation

An extensive African footprint is one of the division's great strengths, with operations in 12 countries outside South Africa (see map below).

External challenges of doing business in Africa

Challenge	Resultant actions
Economic, regulatory and socio-political risks vary greatly from country to country	Customised country management on macro and micro level, using superior business intelligence and expertise acquired over many years as well as flexibility to adapt to changing regulatory requirements
Fierce competition exerts relentless downward pressure on pricing across the spectrum	In-depth understanding of widely divergent socio-economic environments enables effective risk assessment, resulting in equitable premium rates
Individual premium collection presents many complications due to large proportion of unbanked people	Increasing use of mobile technology to resolve problems of this kind
Limited awareness of new insurance brands	Implementation of a single international brand – Metropolitan
Low penetration of insurance products and services	Due emphasis on financial education throughout product lifecycle
Scarcity of skills, especially of a specialist nature	Human resource management given as much time and attention as financial resource management Deployment of skilled resources to country operations
Complexity of operating in multiple jurisdictions and multiple legislative environments	Standardised governance and compliance model customised to local environment

External opportunities of doing business in Africa

Opportunities	Resultant actions
Region with the greatest growth potential in the world	Strong focus on extending international expansion strategy in Africa
Market not only one of largest but also youngest in world – nearly 800 million young people in Africa	Taking demographic dividend inherent in youthful market into full account in design and development initiatives across the board
Rapidly rising consumption across all sectors thanks to surging demand for resources	Focusing on growing demand in financial services sector
Pace of urbanisation and consumerisation steadily picking up, with a strong middle class (incomes > US$20 000) emerging in Africa	Taking advantage of accompanying rise in levels of disposable income and demand for modern products and services
Relatively few purchasers of financial products/users of financial services	Putting huge untapped market potential to optimum use by supplying innovative solutions, customised to local conditions
Mobile phone revolution in full swing with 360 million cellphone users in Africa	Using mobile phones in support of money transfer systems as premium collection method of choice

Internal challenges and opportunities

Opportunities	Resultant actions
High cost of central support services (other than specialist skills) provided from South Africa	Decentralisation to respective African countries as soon as sufficient scale has been reached to steadily reduce costs
High cost of duplication in the IT arena	Restricting the number of IT systems in use until there is only one system per line of business
Different operating models for different lines of business	Implementing efficient and cost-effective business processes that are standardised across all operations, with customisation at the margins for local conditions
Scarcity of local leadership, managerial and other specialist skills	Focused recruitment drives in conjunction with training and development initiatives are starting to deliver results Additional skilled resources deployed into key markets

Operational focus areas
• Top line in all lines of business
• Support centre rationalisation and decentralisation
• Product innovation and diversification
• Appoint top calibre leaders in-country
• IT systems rationalisation and enhancement
• Implement mass-market initiatives
• Acquisitions complementary to growth initiatives

Momentum Investments

Wilhelm van Zyl
Chief executive officer

Nature of business

The division comprises five businesses, incorporating all the investment-related functions provided by the MMI group, including asset management, alternative investments, collective investments, global investment management, manager of managers. ERIS properties is included in reporting under this section.

Vision

We will be the trusted leader in sustainably meeting investment needs.

Business model

Momentum Investments utilises its intellectual capital through the wide-ranging investments capabilities within its business units to design and provide holistic direct or multi-managed investment solutions that best suit its clients' investment needs and goals, with the ultimate purpose of providing stress-free investing to all its clients.

Key strengths

The division prides itself on innovative client-centric investment solutions. It believes its key differentiators are:

- a solutions-driven investment approach, utilising investment capability building blocks together with market-leading manager research and selection, and blending them into single and multi-managed solutions
- a discipline of excellence in client servicing and client-centricity
- a flexible and scalable investment platform
- strategic partnerships and deep distribution relationships
- a large, established alternative investment business with an impressive track record of investment performance

Operational context

Clients include retail and institutional clients within South Africa and selected international countries. These clients access their preferred investment solutions through a variety of sources, including through the division's strategic relationships with other divisions within the MMI group.

Key clients include:

- Retail and wholesale retail
  - Linked investment service providers (LISPs)
  - Independent financial advisers (IFAs)/brokers/wealth managers

  - Boutique manager schemes
  - Direct to market
- Institutional
  - Corporate pension funds
  - Consultants, multi-managers and large IFAs
- Group
  - Momentum Retail
  - Metropolitan Retail
  - Momentum Employee Benefits
  - Metropolitan International
  - Metropolitan Health
  - Balance sheet management

Key profit drivers

The division derives its income mainly from fees earned on monies/assets managed on behalf of its clients. Its success is determined by the following key profit drivers:

- Investment performance
- Asset-based fees
- Operational efficiencies
- Expense management
- Assets under management (size and mix)

Key risks

- The division recognises that, in addition to the risks summarised in the risk management report, and in view of the shortage of investment skills in the market, the retention of talented investment individuals is a key risk, given that its business is intellectual capital intensive by nature.
- The investments industry within South Africa is considered to be a mature market. The ongoing introduction of new boutique and other non-traditional asset managers into the industry increases the competitive forces as current managers attempt to defend their share of the market.
- The division is formulating a strategy around government's proposed introduction of a national social security fund (NSSF), aimed at improving South Africa's social security and retirement savings preservation rate in the future.
- Key strategic partnerships/relationships introduce an element of client concentration risk.

Operational focus areas
• Creating superior investment performance
• Developing solutions-based client value propositions
• Facilitate ease of doing business
• Develop strong client relationships
• Align stakeholders' needs
• Invest in growth initiatives and capabilities
• Optimising efficiencies and systems integration

Metropolitan Health

Blum Khan
Chief executive officer

Vision

To offer leading healthcare solutions in South Africa.

Mission

To enable healthy and productive lives for the many through reliable, broad-based access to affordable, appropriate healthcare on a sustainable basis.

Nature of the business

Provides medical scheme administration, managed healthcare (including wellness, insurance and risk solutions), healthcare-related IT and open scheme distribution.

Key strengths

- High volume transaction processing at low cost
- Proven track record in large scheme take on and retention
- Integrated administration, managed care and wellness
- Develop best-of-breed solutions for client segments, rather than fragmented sub-scale customised solutions and processes
- Top-tier player in the scheme environment, providing access to data on 3.2 million lives
- Strength of clinical and actuarial skills, protocols and risk management systems
- Experience and understanding of the nuances in the healthcare industry
- Largest administrator to government
- Solutions that cover the entire community

Key profit drivers

- Fee income per member per month
- Economies of scale
- Expense management
- Service delivery

In recognition of the prevailing healthcare market dynamics in South Africa, Metropolitan Health (MH) has more recently adopted three strategic goals, viz:

- Ensure top tier position in the private healthcare sector
- Bridge the gap between the private health sector and the public health sector
- Become the preferred public/private partner for the public sector in all aspects of health

In line with these key strategic goals, the division has restructured to deliver its set goals by integrating the previously independent administration and managed care businesses under the leadership of the deputy CEO; and establishing two new divisions, as detailed below:

a) **Metropolitan Health Core – current business of MH and Metropolitan Health Risk Management**
The primary focus of this division will be the ongoing delivery and continuous enhancement of the division's core business, aligned with and driven by its strategy and the three strategic goals. Integral to this division is the drive to bring administration and managed care closer together.

b) **New division: Metropolitan Health Ventures**
This forms part of the strategy to expand our presence into other segments of healthcare, always aligned with the driving principle of playing a significant role in making healthcare possible. This includes initiatives such as the Alpha Pharm clinics and Hellodoctor, where MH is partnering with organisations that operate outside the traditional medical scheme industry.

c) **New division: Metropolitan Health Public Private Partnerships**
Metropolitan Health Public Private Partnerships will focus on opportunities within the public sector, other than primarily public sector schemes. The role of this division is to forge and maintain close relationships with the public sector to gain an understanding of its multiple needs and to position MH as its trusted partner in health.

Product offerings

Closed scheme administration	Clients	Risk management	Clients	Open scheme administration	Clients
• 70% market share • Largest administrator to government • High volume/high service quality at low cost • In-house developed IT platform • Proven large scheme take-on capability	GEMS Engen Afrox Sappi Polmed Golden Arrow Wooltru Pick n Pay Transmed Fishmed Imperial Med BP Motohealth PG Group Bankmed Medipos Samwumed Anglo Topmed SAB	Provides integrated health risk management services that include: • hospital risk • medicine risk • disease risk • HIV and AIDS • management of prescribed benefits • wellness programmes • risk solutions • health financial products	Public sector Corporates Open schemes Employer groups	• Provision of administration services • 100 000 principal members • Competitive pricing and products • Excellent client service • Targeting growth to 200 000 principal members within two years	Momentum Health

Scale of business
Doubled membership on Metropolitan Health platform from 2009 to 2013
• 2005 – 345 307 principal members
• 2013 – 1 255 744 principal members
Level of straight-through processing
• January 2009 – 81.29% (8.7 million claim lines)
• May 2013 – 91.58% (16 million claim lines)
22 schemes – 5 on Momentum platform
Administers a total of 1.3 million families, of which 179 000 are on the Momentum platform
Aim is to migrate to a single platform by 2015

Divisional reviews continued

IT capability	People capability
Developed in-house proprietary system that is available for franchising	Total of more than 100 years of healthcare executive management experience
System was built for scale and is constantly updated to improve efficiencies. Significant investment is being made in upgrading application	Broad-based skills in mass-scale administration management
Offers operational efficiencies and innovation to private schemes that improve performance	One of largest private employers of clinical experts in industry
Open schemes benefit from its value innovation and ability to manage risk	Obtained European-based accreditation for investment in employee learning and development

Risks			Opportunities		
Industry	Internal	Action	Industry	Internal	Action
Further national health reforms, including the introduction of national health insurance (NHI)	High fixed operating cost base	Aim to retain all clients and grow number of members under administration Offered expertise to NHI for pilot projects	Acceleration of consolidation process among medical schemes	Inter-divisional collaboration and cross-selling	Member of MMI exco appointed to co-ordinate cross-selling opportunities across divisions Investment of R41 million over next three years in technology – aligned with MMI group IT strategy
Skills shortage	Retention of critical skills	Appropriate remuneration and incentivisation	Introduction of NHI	Maximising economic benefits of shared services within group	Centralised corporate finance and risk function Centralising of products Capitalising on mega adminis-tration capabilities and existing relationship with public sector
Client retention		Maintain high service levels and add value through innovative interventions	Growth in membership at Momentum Health		Amalgamating closed schemes and moving to open environment Increased focus on advertising and marketing
Compliance requirements		Engaging with regulator on ongoing basis; establishing separate, highly experienced compliance team			

Risks			Opportunities		
Industry	Internal	Action	Industry	Internal	Action
Spiralling healthcare costs		Co-operating with department of health in setting up independent agency to determine tariffs; negotiating with networks on behalf of clients			
Margin pressure		Automating wherever possible; retaining existing clients and expanding current client base			
Fragmentation and emergence of niche players		Strategies to counteract/mitigate fragmentation risk; capitalise on our integrated end-to-end solutions			
	Concentration of revenue risk	Diversify income streams, new ventures/markets/ product			

Operational focus areas
• Retain and expand current business
• Improve margin conversion and service delivery
• Diversify through growth and service delivery
• Leverage health expertise across group
• Build a public private partnership framework

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Annual financial statements

MMI Holdings Ltd group financial statements

MMI Holdings Ltd financial statements

From integration to growth
2013 year-end results

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MMI Holdings Ltd group financial statements

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Directors' responsibility and approval

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors take responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of the company 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 only 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, and the Long-term Insurance Act, 52 of 1998, as amended, and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 96.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 114 to 284, were approved by the board of directors on 11 September 2013 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 11 September 2013

Nicolaas Kruger
Group chief executive officer
Centurion, 11 September 2013

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 2013 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, 11 September 2013

Report of the independent auditors
to the shareholders of MMI Holdings Ltd

We have audited the consolidated financial statements and separate financial statements of MMI Holdings Ltd set out on pages 122 to 284, which comprise the consolidated and separate statements of financial position as at 30 June 2013, the consolidated and separate income statements and consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Ltd as at 30 June 2013, 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.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2013, we have read the directors' report, the Audit Committee's report and the certificate by the group company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered auditor
Sunninghill, 11 September 2013

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)

The Actuarial Society of South Africa (ASSA) issues APNs (which replaced the professional guidance notes) 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 financial soundness valuation 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 Standard 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:

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

Cash-generating units

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

Compulsory margins

Life insurance companies are required to hold compulsory margins in terms of the financial soundness valuation 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 financial soundness valuation 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 disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on investment assets, investment variances and basis and other changes which can be volatile, secondary tax on companies (STC), certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business. STC was added back in the prior year before it was replaced by the new dividends withholding tax (on 1 April 2012).

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. 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. Covered business does not include services provided by the group's asset management and South African healthcare operations.

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.

Definitions continued

Discretionary participation feature (DPF)

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

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

Effective control

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

Effective exposure

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

Effective interest rate

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

Effective interest rate method

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

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 adjusted net worth of covered and non-covered business
- plus the present value of in-force covered business less the opportunity cost of required capital
- 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 International Financial Reporting Standards (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.

Joint control

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

JSE

The JSE Ltd, previously the Johannesburg Stock Exchange Ltd.

New business profit margin

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

Non-covered business

Non-covered business includes the directors' value of the investment management, South African health administration, and short-term insurance operations of the group, as well as the group holding companies. The value of group holding companies is adjusted for the value of future holding company net operating profits/losses, which have not been allowed for elsewhere in the group EV calculations.

Objective evidence of impairment

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

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payment

- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset

Open-ended instruments

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

Prescribed officers

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

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

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

Present value of future premiums (PVP)

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

Present value of in-force covered business (VIF)

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

Related party transactions – key management personnel

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

Reporting basis

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

Required capital

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

Return on embedded value

Return on embedded value is the embedded value earnings over the period expressed as a percentage of the embedded value at the beginning of the period, adjusted for capital movements during the year.

Risk discount rate

The risk discount rate is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business.

Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Statutory basis

The statutory basis is the valuation basis and methodology used for statutory reporting purposes, as determined by the Financial Services Board 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 financial soundness valuation principles. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of actuarial values of assets and liabilities.

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.

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

The value of new business 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.

Report on the review of the report on group embedded value

of MMI Holdings Ltd and its subsidiaries to the directors of MMI Holdings Ltd

INTRODUCTION

We have reviewed the report on group embedded value of MMI Holdings Ltd and its subsidiaries (the group) as at 30 June 2013, as set out on pages 101 to 113 (the report). The report is prepared for the purpose of setting out the embedded value of the group as at 30 June 2013. The directors of MMI Holdings Ltd are responsible for the preparation and presentation of the report in accordance with the basis set out on page 101 of the report, and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this report based on our review.

SCOPE OF REVIEW

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

The internally developed required capital model has not been reviewed.

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 embedded value basis set out on page 101 of the report.

BASIS OF ACCOUNTING

Without modifying our conclusion, we draw attention to page 101 of the report, which describes the basis of preparation. The report is prepared for the purpose of setting out the embedded value of the group as at 30 June 2013. As a result, the report may not be suitable for another purpose.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered auditor
Sunninghill, 11 September 2013

Report on group embedded value
at 30 June 2013

DEFINITION OF EMBEDDED VALUE

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

An embedded value represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- plus the write-up to directors' value of the non-covered business.

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 are added back.

Required capital

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

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.

Risk discount rate

The risk discount rate 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 risk discount rate 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.

Wealth business

The Wealth off-balance sheet business has been excluded from covered business in the current year. The comparative value of new business information has been restated, but the analysis of changes in embedded value has not been restated.

Report on group embedded value continued
at 30 June 2013

EMBEDDED VALUE RESULTS AS AT 30 JUNE	2013 Rm	2012 Rm
Covered business		
Reporting excess – long-term insurance business	**16 925**	16 782
Reclassification to non-covered business	**(1 482)**	(1 388)
	15 443	15 394
Disregarded assets[1]	**(693)**	(688)
Difference between statutory and published valuation methods	**(551)**	(436)
Dilutory effect of subsidiaries[2]	**(26)**	(30)
Consolidation adjustments[3]	**(36)**	(30)
Momentum Namibia adjustment[4]	**–**	(247)
Value of MMI Group Ltd preference shares issued	**(500)**	(480)
Diluted adjusted net worth – covered business	**13 637**	13 483
Net value of in-force business	**17 870**	14 910
Diluted embedded value – covered business	**31 507**	28 393
Non-covered business		
Net assets – non-covered business within life insurance companies	**1 482**	1 388
Net assets – non-covered business outside life insurance companies	**1 547**	1 334
Consolidation adjustments[3]	**(1 011)**	(200)
Adjustments for dilution[5]	**698**	610
Diluted adjusted net worth – non-covered business	**2 716**	3 132
Write-up to directors' value	**925**	947
Non-covered business	**2 543**	2 110
Holding company expenses[6]	**(1 208)**	(953)
International holding company expenses[6]	**(410)**	(210)
Diluted embedded value – non-covered business	**3 641**	4 079
Diluted adjusted net worth	**16 353**	16 615
Net value of in-force business	**17 870**	14 910
Write-up to directors' value	**925**	947
Diluted embedded value	**35 148**	32 472
Required capital – covered business (adjusted for qualifying debt and preference shares)	**8 620**	7 858
Surplus capital – covered business	**5 017**	5 625
Diluted embedded value per share (cents)	**2 191**	2 023
Diluted adjusted net worth per share (cents)	**1 020**	1 035
Diluted number of shares in issue (million)[7]	**1 604**	1 605

1 Disregarded assets include Sage intangible assets of R562 million (2012: R590 million), goodwill and various other items.

2 For accounting purposes Metropolitan Health has been consolidated at 100%, while Metropolitan Namibia and Metropolitan Kenya have been consolidated at 96% for the current year 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 other intangibles in subsidiaries that are eliminated.

4 The carrying value of Momentum Namibia included in the reporting excess for the prior year was written down to the company's net asset value. For June 2013 this adjustment is already included in the reporting excess.

5 Adjustments for dilution are made up as follows:

- Dilutory effect of subsidiaries (note 2 above): R119 million (2012: R74 million)
- Treasury shares held on behalf of contract holders: R266 million (2012: R220 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R313 million (2012: R316 million)

6 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.

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.

ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS PER DIVISION	2013 Rm	Restated 2012 Rm
Momentum Retail[1]	**8 967**	8 029
Gross value of in-force business	**10 490**	9 587
Less: cost of required capital	**(1 523)**	(1 558)
Metropolitan Retail	**3 555**	3 323
Gross value of in-force business	**4 312**	3 968
Less: cost of required capital	**(757)**	(645)
Momentum Employee Benefits	**3 106**	1 992
Gross value of in-force business	**3 776**	2 609
Less: cost of required capital	**(670)**	(617)
Metropolitan International	**1 659**	1 268
Gross value of in-force business	**1 772**	1 321
Less: cost of required capital	**(113)**	(53)
Shareholder Capital[1]	**583**	298
Gross value of in-force business[2]	**583**	298
Less: cost of required capital	**–**	–
Net value of in-force business	**17 870**	14 910

[1] Net value of in-force of R93 million was transferred from Momentum Retail to Shareholder Capital at June 2012, reflecting a change in the responsibility for managing financial options and guarantees (Advisory Practice Note 110). The comparatives have been restated to reflect this change.

[2] The value of in-force in Shareholder Capital represents discretionary margins.

Report on group embedded value continued
at 30 June 2013

EMBEDDED VALUE PER DIVISION	Adjusted net worth Rm	Net value of in-force Rm	2013 Rm	Restated 2012 Rm
Covered business				
MMI Group Ltd	12 441	16 211	**28 652**	26 115
Metropolitan Odyssey Ltd	49	–	**49**	48
Metropolitan International	1 147	1 659	**2 806**	2 230
Metropolitan Life (Namibia) Ltd	431	1 092	**1 523**	1 263
Metropolitan Life of Botswana Ltd	137	129	**266**	215
Metropolitan Lesotho Ltd	276	379	**655**	539
Other international businesses	303	59	**362**	213
Total covered business	13 637	17 870	**31 507**	28 393

	Adjusted net worth Rm	Write-up to directors' value Rm	2013 Rm	2012 Rm
Non-covered business				
Momentum Investments[1]	721	1 025	**1 746**	1 453
Metropolitan Health[2]	404	1 258	**1 662**	1 603
Momentum Retail (Wealth)[3]	269	110	**379**	408
Momentum Short-term Insurance (MSTI)	171	129	**300**	160
Metropolitan International Holdings[4]	104	(389)	**(285)**	78
MMI Holdings Ltd (after consolidation adjustments)[4]	1 047	(1 208)	**(161)**	377
Total non-covered business	2 716	925	**3 641**	4 079
Total embedded value	16 353	18 795	**35 148**	32 472
Diluted adjusted net worth – non-covered business	(2 716)			
Adjustments to covered business – adjusted net worth	3 288			
Reporting excess – long-term insurance business	16 925			

[1] Momentum Investments subsidiaries are valued using forward price earnings multiples applied to the relevant sustainable earnings bases. June 2013 includes the valuation of Eris Properties Group.

[2] Metropolitan Health subsidiaries have been valued using embedded value methodology.

[3] Momentum Retail (Wealth) has been valued using embedded value methodology.

[4] 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.

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business ANW Rm	Gross VIF Rm	Cost of CAR Rm	12 months to 30.06.2013 Total EV Rm	12 months to 30.06.2012 Total EV Rm
Profit from new business		(1 296)	2 257	(162)	**799**	723
Embedded value from new business	A	(1 296)	2 169	(162)	**711**	633
Expected return to end of period	B	–	88	–	**88**	90
Profit from existing business		3 228	120	(12)	**3 336**	2 350
Expected return – unwinding of risk discount rate	B	–	1 786	(299)	**1 487**	1 518
Release from the cost of required capital	C	–	–	417	**417**	411
Expected (or actual) net of tax profit transfer to net worth	D	3 093	(3 093)	–	**–**	–
Operating experience variances	E	618	275	19	**912**	711
Operating assumption changes	F	(483)	1 152	(149)	**520**	(290)
Embedded value profit from operations		1 932	2 377	(174)	**4 135**	3 073
Investment return on adjusted net worth	G	919	–	–	**919**	870
Investment variances	H	140	852	19	**1 011**	(364)
Economic assumption changes	I	(36)	(170)	(15)	**(221)**	110
Take-on of covered business		–	89	–	**89**	5
Exchange rate movements		32	9	(2)	**39**	18
Embedded value profit – covered business		2 987	3 157	(172)	**5 972**	3 712
Transfer of business from/(to) non-covered business	J	292	(7)	(18)	**267**	(571)
Changes in share capital		37	–	–	**37**	365
Dividend paid		(3 140)	–	–	**(3 140)**	(2 498)
Change in reserves		(22)	–	–	**(22)**	28
Change in embedded value – covered business		154	3 150	(190)	**3 114**	1 036
Non-covered business						
Change in directors' valuation and other items					**131**	4
Holding company expenses					**(455)**	(248)
Secondary tax on companies allowance					**–**	6
Embedded value profit – non-covered business					**(324)**	(238)
Changes in share capital					**(37)**	(365)
Dividend paid					**236**	889
Finance costs – preference shares					**(46)**	(92)
Transfer of business (to)/from covered business	J				**(267)**	551
Change in embedded value – non-covered business					**(438)**	745
Total change in group embedded value					**2 676**	1 781
Total embedded value profit					**5 648**	3 474
Return on embedded value (%) – internal rate of return					**17.4**	11.3

Report on group embedded value continued
at 30 June 2013

A. VALUE OF NEW BUSINESS

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business. In determining the value of new 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 value of new business
- 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 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 group insurance contracts are treated as in-force covered business

RECONCILIATION OF LUMP SUM INFLOWS	12 months to 30.06.2013 Rm	Restated 12 months to 30.06.2012 Rm
Total lump sum inflows	**148 881**	105 090
Inflows not included in value of new business	**(131 698)**	(90 352)
Momentum Retail[1]	**(14 816)**	(13 063)
Momentum Employee Benefits	**(184)**	(66)
Metropolitan International	**(1 024)**	(1 122)
Momentum Investments		
On-balance sheet inflows	**(16 819)**	(10 661)
Off-balance sheet inflows		
Eris Property acquisition	**(18 678)**	–
Other	**(80 165)**	(65 440)
Balance Sheet Management	**(12)**	–
Term extensions on maturing policies	**610**	885
Non-controlling interests and other adjustments	**55**	25
Single premiums included in value of new business	**17 848**	15 648

[1] From financial year 2013 Wealth off-balance sheet business has been excluded from covered business.

VALUE OF NEW BUSINESS 12 months to 30 June 2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm
Value of new business[1]	**203**	**239**	**213**	**56**	**711**
Gross	**268**	**268**	**275**	**63**	**874**
Less: cost of required capital	**(65)**	**(29)**	**(62)**	**(7)**	**(163)**
New business premiums	**12 433**	**2 305**	**5 836**	**473**	**21 047**
Recurring premiums	**1 057**	**1 075**	**769**	**298**	**3 199**
Single premiums	**11 376**	**1 230**	**5 067**	**175**	**17 848**
New business premiums (APE)	**2 195**	**1 198**	**1 276**	**316**	**4 985**
New business premiums (PVP)	**17 421**	**5 126**	**11 627**	**1 635**	**35 809**
Profitability of new business as a percentage of APE	**9.2**	**19.9**	**16.7**	**17.7**	**14.3**
Profitability of new business as a percentage of PVP	**1.2**	**4.7**	**1.8**	**3.4**	**2.0**

Restated 12 months to 30 June 2012	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm
Value of new business[1]	173	262	130	34	599
Gross	235	284	173	34	726
Less: cost of required capital	(62)	(22)	(43)	–	(127)
New business premiums	11 518	2 282	4 458	497	18 755
Recurring premiums	1 054	1 035	790	228	3 107
Single premiums	10 464	1 247	3 668	269	15 648
New business premiums (APE)	2 100	1 159	1 157	255	4 671
New business premiums (PVP)	16 384	5 371	9 421	1 332	32 508
Profitability of new business as a percentage of APE	8.2	22.6	11.2	13.3	12.8
Profitability of new business as a percentage of PVP	1.1	4.9	1.4	2.6	1.8

- Value of new business and new business premiums are net of non-controlling interests.
- 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 end of the year have been used.

[1] The Wealth off-balance sheet business has been excluded from covered business in the current year. The comparative value of new business information has been restated but the analysis of changes in embedded value has not been restated.

Report on group embedded value continued
at 30 June 2013

ANALYSIS OF NEW BUSINESS PREMIUMS 12 months to 30 June 2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm
New business premiums	**12 433**	**2 305**	**5 836**	**473**	**21 047**
Recurring premiums	**1 057**	**1 075**	**769**	**298**	**3 199**
Risk	**508**	**748**	**369**	**–**	**1 625**
Savings/investments	**549**	**327**	**400**	**–**	**1 276**
International	**–**	**–**	**–**	**298**	**298**
Single premiums	**11 376**	**1 230**	**5 067**	**175**	**17 848**
Savings/investments	**10 921**	**589**	**2 267**	**–**	**13 777**
Annuities	**455**	**641**	**2 800**	**–**	**3 896**
International	**–**	**–**	**–**	**175**	**175**
New business premiums (APE)	**2 195**	**1 198**	**1 276**	**316**	**4 985**
Risk	**508**	**748**	**369**	**–**	**1 625**
Savings/investments	**1 641**	**386**	**627**	**–**	**2 654**
Annuities	**46**	**64**	**280**	**–**	**390**
International	**–**	**–**	**–**	**316**	**316**

Restated 12 months to 30 June 2012	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm	Total Rm
New business premiums	11 518	2 282	4 458	497	18 755
Recurring premiums	1 054	1 035	790	228	3 107
Risk	566	735	419	–	1 720
Savings/investments	486	300	368	–	1 154
Annuities	2	–	3	–	5
International	–	–	–	228	228
Single premiums	10 464	1 247	3 668	269	15 648
Savings/investments	9 699	659	2 397	–	12 755
Annuities	765	588	1 271	–	2 624
International	–	–	–	269	269
New business premiums (APE)	2 100	1 159	1 157	255	4 671
Risk	566	734	419	–	1 719
Savings/investments	1 456	366	608	–	2 430
Annuities	78	59	130	–	267
International	–	–	–	255	255

Changes in bases and assumptions

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

Assumptions

The main assumptions used in the embedded value calculations are described below.

Principal assumptions (South Africa)	2013 %	2012 %
Pre-tax investment return		
Equities	**11.4**	11.3
Properties	**8.9**	8.8
Government stock	**7.9**	7.8
Other fixed-interest stocks	**8.4**	8.3
Cash	**6.9**	6.8
Risk-free return	**7.9**	7.8
Risk discount rate (RDR)	**10.2**	10.1
Investment return (before tax) – balanced portfolio	**10.1**	10.0
Base expense inflation[1]	**6.1**	5.8

The risk-free return was determined with reference to the market interest rate on South African government bonds at the valuation date. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

[1] An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.

Non-economic

The embedded value calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation.

The value of new business 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 risk discount rate applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year and adding the expected return on new business, which is determined by applying the current risk discount rate to the value of new business from the point of sale to the end of the reporting year.

C. RELEASE FROM THE COST OF REQUIRED CAPITAL

The release from the cost of required capital represents the difference between the risk discount rate 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 adjusted net worth is calculated on the statutory valuation method. While investment returns on certain explicit discretionary margin reserves were retained in the past, expected investment returns of R128 million (2012: R146 million) on the statutory basis after tax [R153 million (2012: R182 million) on the published basis after tax] have been released to earnings in the 12 months ended 30 June 2013 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy. This item is released from the value of in-force as part of the item "Expected (or actual) net of tax profit transfer to net worth".

Report on group embedded value continued
at 30 June 2013

E. OPERATING EXPERIENCE VARIANCES

	12 months to 30.06.2013			12 months to 30.06.2012
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	**75**	**53**	**128**	76
Mortality and morbidity[1]	**249**	**10**	**259**	154
Terminations, premium cessations and policy alterations[2]	**(59)**	**76**	**17**	3
Expense variance	**3**	**(3)**	**–**	(23)
Other[4]	**(118)**	**(30)**	**(148)**	(58)
Metropolitan Retail	**101**	**(39)**	**62**	7
Mortality and morbidity[1]	**88**	**9**	**97**	92
Terminations, premium cessations and policy alterations[5]	**(34)**	**(63)**	**(97)**	(76)
Expense variance[3]	**59**	**–**	**59**	27
Other[6]	**(12)**	**15**	**3**	(36)
Momentum Employee Benefits	**152**	**154**	**306**	147
Mortality and morbidity[1]	**19**	**(2)**	**17**	53
Terminations[7]	**78**	**155**	**233**	44
Expense variance[3]	**9**	**–**	**9**	14
Other[6]	**46**	**1**	**47**	36
Metropolitan International	**76**	**76**	**152**	38
Mortality and morbidity[1]	**88**	**(7)**	**81**	62
Terminations, premium cessations and policy alterations	**24**	**41**	**65**	1
Expense variance[3]	**(22)**	**38**	**16**	(18)
Other	**(14)**	**4**	**(10)**	(7)
Shareholder Capital[8]	**214**	**28**	**242**	328
Opportunity cost of required capital	**–**	**22**	**22**	115
Total operating experience variances	**618**	**294**	**912**	711

1 Overall, mortality and morbidity experience for the 12 months was better compared to what was allowed for in the valuation basis.

2 Favourable persistency on risk and investment business offset by fee alterations on Wealth business.

3 The impact of managing expenses better than anticipated in the actuarial valuation basis.

4 Various items including non-recurring costs related to strategic initiatives and under-recovery of intergroup sales costs.

5 Mainly one-off items relating to grouped individual terminations and expense recoveries on smoothed bonus product withdrawals. Corrective actions, including provisioning and modelling changes, have been taken during the current year.

6 Various small other operating experience variances.

7 Positive impact of better than anticipated termination experience on administration and investment fees and also reduced capital required due to the migration towards less capital intensive products.

8 The income recorded in respect of Shareholder Capital relates mostly to earnings from holding company activities and the management of MMI's capital and shareholder balance sheet risks. Other sources of earnings, such as variations in actual tax payments and corporate expenses not allocated to underlying business units, are also included here.

F. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2013			12 months to 30.06.2012
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	**(341)**	**419**	**78**	(220)
Mortality and morbidity assumptions[1]	**(41)**	**107**	**66**	11
Renewal expense assumptions[2]	**(53)**	**157**	**104**	17
Termination assumptions[3]	**(77)**	**181**	**104**	(7)
Modelling, methodology and other changes[4]	**(170)**	**(26)**	**(196)**	(241)
Metropolitan Retail	**(51)**	**200**	**149**	143
Mortality and morbidity assumptions[1, 5]	**45**	**160**	**205**	15
Renewal expense assumptions[2]	**26**	**64**	**90**	(3)
Termination assumptions[5]	**(77)**	**(101)**	**(178)**	3
Modelling, methodology and other changes[6]	**(45)**	**77**	**32**	128
Momentum Employee Benefits	**(21)**	**408**	**387**	296
Assumed mortality and morbidity profit margin[1]	**–**	**(29)**	**(29)**	82
Termination assumptions[7]	**–**	**201**	**201**	56
Renewal expense assumptions[2]	**(60)**	**141**	**81**	109
Modelling, methodology and other changes[8]	**39**	**95**	**134**	49
Metropolitan International	**(73)**	**55**	**(18)**	(44)
Mortality and morbidity assumptions	**(4)**	**8**	**4**	1
Renewal expense assumptions[2]	**14**	**10**	**24**	(8)
Termination assumptions	**(46)**	**25**	**(21)**	(7)
Modelling, methodology and other changes[9]	**(37)**	**12**	**(25)**	(30)
Shareholder Capital	**3**	**17**	**20**	(6)
Methodology change: cost of required capital[10]	**–**	**(96)**	**(96)**	(459)
Total operating assumption changes	**(483)**	**1 003**	**520**	(290)

1 Allowance in the assumptions for better risk experience across all divisions, in line with experience.

2 Allowance in the assumptions for better expense experience across all divisions, in line with budgets.

3 Mainly positive termination assumption changes on risk business, in line with experience.

4 Various changes to models and methodology, including improvements to fees on Wealth business, tax changes, benefit enhancements and costs relating to strategic initiatives.

5 Offsetting mortality and termination assumption changes have been made to mainly grouped individual lines of business, in line with recent experience investigations.

6 Various changes to models and methodology.

7 Improvements to termination assumptions, in line with experience.

8 Various changes to models and methodology, including improvements to allowances for investment guarantees (APN 110) and yield curves on annuity products.

9 Various changes to models and methodology, including improvements to allowances for investment guarantees (APN 110).

10 Various changes, including changes to the assumed return on assets backing the required capital.

Report on group embedded value continued
at 30 June 2013

G. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2013 Rm	12 months to 30.06.2012 Rm
Investment income	**681**	611
Capital appreciation	**267**	290
Preference share dividends paid and change in fair value of preference shares	**(29)**	(31)
Investment return on adjusted net worth	**919**	870

H. 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.

I. ECONOMIC ASSUMPTION CHANGES

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

J. TRANSFER OF BUSINESS FROM/TO NON-COVERED BUSINESS

Represents the alignment of net assets and value of in-force of mainly international subsidiaries between covered and non-covered business.

SENSITIVITY OF THE IN-FORCE VALUE AND THE VALUE OF NEW BUSINESS

This section illustrates the effect of different assumptions on the adjusted net worth, the value of in-force business, the value of new business 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 risk discount rate" sensitivity, the central risk discount rate has been used.

The table below shows the impact on the embedded value (adjusted net worth, value of in-force and cost of required capital) and value of new business (gross and net of the cost of required capital) of a 1% change in the risk discount rate. 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.

			In-force business			New business written		
COVERED BUSINESS: SENSITIVITIES – 30.06.2013		**Adjusted net worth[3] Rm**	**Net VIF[4] Rm**	**Gross VIF Rm**	**Cost of required capital[5] Rm**	**Net VNB Rm**	**Gross VNB Rm**	**Cost of required capital[5] Rm**
Base value		**13 637**	**17 870**	**20 933**	**(3 063)**	**711**	**874**	**(163)**
1%	increase in risk discount rate		**16 489**	**19 932**	**(3 443)**	**584**	**773**	**(189)**
	% change		**(8)**	**(5)**	**12**	**(18)**	**(12)**	**16**
1%	reduction in risk discount rate		**19 434**	**22 085**	**(2 651)**	**858**	**995**	**(137)**
	% change		**9**	**6**	**(13)**	**21**	**14**	**(16)**
10%	decrease in future expenses		**18 961**	**22 026**	**(3 065)**	**817**	**980**	**(163)**
	% change[1]		**6**	**5**	**–**	**15**	**12**	**–**
10%	decrease in lapse, paid-up and surrender rates		**18 512**	**21 601**	**(3 089)**	**870**	**1 041**	**(171)**
	% change		**4**	**3**	**1**	**22**	**19**	**5**
5%	decrease in mortality and morbidity for assurance business		**19 183**	**22 300**	**(3 117)**	**866**	**1 028**	**(162)**
	% change		**7**	**7**	**2**	**22**	**18**	**(1)**
5%	decrease in mortality for annuity business		**17 554**	**20 632**	**(3 078)**	**698**	**861**	**(163)**
	% change		**(2)**	**(1)**	**–**	**(2)**	**(1)**	**–**
1%	reduction in gross investment return, inflation rate and risk discount rate	**13 629**	**18 217**	**21 334**	**(3 117)**	**806**	**963**	**(157)**
	% change[2]	**–**	**2**	**2**	**2**	**13**	**10**	**(4)**
1%	reduction in inflation rate		**18 556**	**21 620**	**(3 064)**	**755**	**918**	**(163)**
	% change		**4**	**3**	**–**	**6**	**5**	**–**
10%	fall in market value of equities and properties	**13 447**	**16 503**	**19 648**	**(3 145)**	**–**	**–**	**–**
	% change	**(1)**	**(8)**	**(6)**	**3**	**–**	**–**	**–**
10%	reduction in premium indexation take-up rate		**17 571**	**20 617**	**(3 046)**	**667**	**830**	**(163)**
	% change		**(2)**	**(2)**	**(1)**	**(6)**	**(5)**	**–**
10%	decrease in non-commission-related acquisition expenses		**–**	**–**	**–**	**829**	**992**	**(163)**
	% change		**–**	**–**	**–**	**17**	**14**	**–**
1%	increase in equity/property risk premium		**18 230**	**21 249**	**(3 019)**	**718**	**881**	**(163)**
	% change		**2**	**2**	**(1)**	**1**	**1**	**–**

[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 Adjusted net worth sensitivities represent the change on shareholder investment assets only.
[4] The Net VIF includes the day one impact of any reserving and value of in-force changes, as per the APN 107 guidelines.
[5] 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 2013.

NATURE OF ACTIVITIES

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

CORPORATE EVENTS AND AMALGAMATIONS

The transactions to acquire 55% of Eris Property Group and the remaining 50% in Momentum Short-term Insurance (MSTI) became unconditional during the current year. Refer to note 38 for more details.

After consultation with the Financial Services Board (FSB), the group applied to the High Court of South Africa for the approval of the amalgamation of the two main long-term insurance licences. As a preparatory step for this legal amalgamation of the life insurance licences, Momentum Group Ltd, the main operating subsidiary of MMI Holdings Ltd, changed its name to MMI Group Ltd (MMIGL). The court approval for the amalgamation was granted on 20 May 2013 and the assets and liabilities of Metropolitan Life Ltd were sold to MMIGL on this date. This had no impact on the group results or net asset value.

MMI Holdings Ltd acquired MMIGL's preference shares from FirstRand Ltd during the current year. These shares have been eliminated at the group level, but still qualify as capital for MMIGL.

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 Listings Requirements of the JSE Ltd and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the group have been applied consistently to all periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on page 148, including changes in estimates that are an integral part of the insurance business.

Reclassifications

The group June 2012 results have been restated for certain reclassifications. Refer to page 127 for detail.

Segmental information

The current MMI results disclose the segmental information based on the way the business is managed and presented to the MMI Executive Committee (chief operating decision-maker).

The group operates through the following divisions: Momentum Retail; Metropolitan Retail; Momentum Employee Benefits; Metropolitan International; Momentum Investments; Metropolitan Health; and Shareholder Capital (which includes Momentum Short-term Insurance, the Balance Sheet Management business unit, other support services and growth initiatives).

CORPORATE GOVERNANCE

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The group had no material capital commitments at 30 June 2013 other than what is disclosed in note 39. The group is party to legal proceedings in the normal course of business, and appropriate provisions are made when losses are expected to materialise.

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 attributable to equity holders for the year under review were R2 587 million (2012: R2 301 million). Group diluted core headline earnings were R3 241 million (2012: R2 955 million) and diluted core headline earnings per share 202 cents (2012: 184 cents).

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:

	2013		2012	
Analysis of diluted core headline earnings	**Rm**	**% of total**	**Rm**	**% of total**
Momentum Retail	**1 179**	**36**	1 064	36
Metropolitan Retail	**509**	**16**	438	15
Momentum Employee Benefits	**330**	**10**	249	8
Metropolitan International	**108**	**3**	57	2
Momentum Investments	**175**	**6**	125	4
Metropolitan Health	**151**	**5**	133	5
Shareholder Capital	**789**	**24**	889	30
Total per segmental report	**3 241**	**100**	2 955	100

SUBSIDIARIES AND ASSOCIATES

Details of significant subsidiary companies and associates are contained in Annexures A and B. Further details on associates are contained in note 5.

COMPANIES ACT

The company has approved a Memorandum of Incorporation in light of the promulgation of the Companies Act, 71 of 2008 and the Companies Regulations in May 2011.

SHARE CAPITAL

Share issue

There were no changes in the authorised or issued share capital of MMI Holdings Ltd during the current financial year other than the share buy-back relating to the odd lot offer in July 2012. In June 2012 the A1 (53 million) and A2 (13 million) preference shares were converted on a one-for-one basis into ordinary shares.

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 21.2(e) for more details.

MMIGL preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. During the current year, MMI Holdings Ltd acquired these shares from FirstRand Ltd. Refer to note 15.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2013 cents per share	**2012 cents per share**
Interim – March	**51**	44
Final – September	**76**	69
	127	113

A special dividend of 65 cents per share was also declared in September 2012.

Ordinary shares

The dividend policy for ordinary listed shares, approved by the directors, is to provide shareholders with stable dividend growth, reflecting the board's long-term view on the expected underlying basic core headline earnings growth. Exceptions will be made from time to time in order to account for, inter alia, volatile investment markets, capital requirements and changes in legislation.

On 10 September 2013, a gross final dividend of 76 cents per ordinary share was declared, resulting in an annual dividend of 127 cents per share. The final dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the company at the close of business on Friday, 4 October 2013 and will be paid on Monday, 7 October 2013. The dividend will be subject to local dividend withholding tax at a rate of 15% unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. The STC credits utilised per share amount to 3.92110 cents per ordinary share. This will result in a net dividend, for those shareholders who are not exempt from paying dividend tax, of 65.18817 cents per ordinary share.

MMI's income tax number is 975 2050 147 and the number of ordinary shares in issue at the declaration date was 1 569 803 700. The last day to trade cum dividend will be Friday, 27 September 2013. The shares will trade ex dividend from the start of business on Monday, 30 September 2013. Share certificates may not be dematerialised or rematerialised between Monday, 30 September and Friday, 4 October 2013, both days inclusive.

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

Preference share dividends

Dividends of R23 million (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares. The declaration rate was determined as set out in the company's Memorandum of Incorporation and the total preference dividend utilised STC credits of R1 173 943.

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

The A1 and A2 MMI Holdings Ltd preference shares were converted into MMI Holdings Ltd ordinary shares on a one-for-one basis in June 2012. The A3 MMI Holdings Ltd preference shares are redeemable in June 2017 at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Dividends are payable at 132 cents per annum (payable March and September).

MMIGL preference shares

Dividends declared on the MMIGL preference shares to FirstRand Ltd (prior to the shares being bought by MMI Holdings Ltd) amounted to R32 million (2012: R31 million).

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 284.

DIRECTORATE, SECRETARY AND AUDITOR

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

	Appointments	Resignations
Ms NDL Motsei	26 November 2012	
Mr M Mthombeni		31 August 2012
Mr JE Newbury *(retired)*		26 November 2012
Ms M Chetty (acting/group company secretary)	25 April 2013/3 September 2013	
Mr FD Jooste (group company secretary) *(deceased)*		25 April 2013

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on page 36 to page 39 and page 66 in the corporate governance 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 L Crouse and Mr KC Shubane are non-executive directors, has a direct holding of 24.5% in the group.

KTH, of which Mr V Nkonyeni is an executive director, has the following strategic empowerment holdings in the group:

- a 7.1% interest in MMI Holdings Ltd (34 million MMI Holdings Ltd preference shares and 79 million listed MMI Holdings Ltd ordinary shares)
- an 18% interest in Metropolitan Health Corporate (Pty) Ltd
- a 20% interest in Metropolitan Retirement Administrators (Pty) Ltd.

KTH also holds an effective 0.2% indirect interest in MMI Holdings Ltd through the FirstRand Empowerment Trust.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2013 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	To be delivered '000	Total 2013 '000	Total 2012 '000
Listed					
Executive directors	493	–	315	**808**	808
Non-executive directors	64	1 316	1 956	**3 336**	3 951
	557	1 316	2 271	**4 144**	4 759

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 Ltd is set out on page 69 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd at 30 June 2013 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2013 '000	Total 2012 '000
Listed				
Executive directors	16	64	**80**	80
Non-executive directors	54	1 443	**1 497**	3 250
	70	1 507	**1 577**	3 330

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.02% (2012: 0.05%).

Directors' report continued

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries, with an array of notice periods ranging from four weeks to three months. There are no additional costs to the group. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2013 is set out below. The detail in terms of the Listings Requirements of the JSE Ltd is set out on page 70 in the corporate governance report.

	Fees	Annual package	Bonus[1]	Long-term incentive payments	Allowances and pension fund contributions	Total 2013	Total 2012
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive	–	16 522	16 766	21 869	1 667	**56 824**	51 493
Non-executive	19 288	–	–	–	–	**19 288**	21 149
Total	19 288	16 522	16 766	21 869	1 667	**76 112**	72 642

[1] Bonus payments relate to the 2012 financial year's bonus.

The share-based payment charge relating to the executive directors amounted to R23 million (2012: R24 million). Refer to note 21.2(e) for details.

SPECIAL RESOLUTIONS

MMI Holdings Ltd annual general meeting – 26 November 2012

At the annual general meeting of shareholders of the company held on 26 November 2012 the following special resolutions were approved:

- It was resolved to replace, in its entirety, the company's existing memorandum and articles of association with a new Memorandum of Incorporation.
- The board of directors was authorised, by way of a general approval, to enable the company to acquire up to a maximum of 20% of its own issued share capital, 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.
- 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 fees for the members of the board of directors and other committee members were approved.

MMIGL annual general meeting – 27 November 2012

At the annual general meeting of shareholders of the company held on 27 November 2012 the following special resolutions were approved:

- 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 fees for the members of the board of directors and other committee members were approved.

Metropolitan Life Ltd annual general meeting – 27 November 2012

At the annual general meeting of shareholders of the company held on 27 November 2012 the following special resolutions were approved:

- 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 fees for the members of the board of directors and other committee members were approved.

BORROWING POWERS

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

EVENTS AFTER THE REPORTING PERIOD

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

Statement of assets and liabilities on reporting basis

at 30 June 2013

	2013 Rm	Restated 2012 Rm
REPORTING BASIS		
Total assets per statement of financial position	**343 143**	302 604
Actuarial value of policy liabilities	**(280 323)**	(245 045)
Other liabilities per statement of financial position	**(38 956)**	(33 261)
Non-controlling interests per statement of financial position	**(391)**	(281)
Group excess per reporting basis	**23 473**	24 017
Net assets – other businesses	**(1 547)**	(1 334)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(5 001)**	(5 901)
Excess – long-term insurance business, net of non-controlling interests[1]	**16 925**	16 782
RECONCILIATION OF CHANGE IN LONG-TERM INSURANCE EXCESS TO THE INCOME STATEMENT		
Change in excess – long-term insurance business[1]	**143**	871
Increase in share capital	**(29)**	(345)
Change in other reserves	**(62)**	(60)
Dividend paid – ordinary shares	**3 140**	2 502
Change in non-controlling interests	**–**	(53)
Acquisition of Momentum Namibia	**–**	(117)
Other	**(22)**	–
Total surplus arising, net of non-controlling interests	**3 170**	2 798
Operating profit	**2 636**	2 309
Investment income on excess	**683**	520
Net realised and fair value gains on excess	**221**	242
Investment variances	**117**	(54)
Basis and other changes	**(487)**	(219)
Net consolidation adjustments	**(43)**	(12)
Earnings after tax and non-controlling interests of long-term insurance business	**3 127**	2 786
Earnings after tax and non-controlling interests of other group businesses and consolidation adjustments	**(94)**	(39)
Amortisation of intangible assets relating to the merger	**(446)**	(446)
Earnings attributable to owners of the parent as per income statement	**2 587**	2 301

[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. It is after non-controlling interests but excludes certain items which are eliminated on consolidation. It also excludes non-insurance business.

	2013 Rm	2012 Rm
RECONCILIATION OF REPORTING EXCESS TO STATUTORY EXCESS		
Reporting excess – long-term insurance business[1]	**16 925**	16 782
Disregarded assets in terms of statutory requirements[2]	**(977)**	(998)
Difference between statutory and published valuation methods	**(551)**	(436)
Write-down of subsidiaries' and associates' values for statutory purposes	**(936)**	(1 209)
Unsecured subordinated debt	**1 553**	1 563
Consolidation adjustments	**(119)**	(56)
Statutory excess – long-term insurance business	**15 895**	15 646
Capital adequacy requirement (CAR)[3]	**6 167**	6 641
Ratio of long-term insurance business excess to CAR (times)	**2.6**	2.4
Discretionary margins	**11 378**	9 974

[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. It is after non-controlling interests but excludes certain items which are eliminated on consolidation. It also excludes non-insurance business.

[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 R562 million (2012: R590 million).

[3] Aggregation of separate company CARs, with no assumption of diversification benefits.

Statement of financial position

at 30 June 2013

	2013 Rm	2012 Rm	Notes
ASSETS			
Intangible assets	**11 769**	11 998	1
Owner-occupied properties	**1 488**	1 464	2
Property and equipment	**348**	321	3
Investment properties	**6 433**	5 415	4
Investments in associates	**121**	127	5
Employee benefit assets	**327**	302	21.1
Financial instruments			
Securities designated at fair value through income	**271 227**	236 129	6.1
Investments in associates designated at fair value through income	**17 424**	14 333	6.2
Derivative financial instruments	**3 173**	3 579	6.3
Available-for-sale	**953**	2 902	6.4
Held-to-maturity	**69**	60	6.5
Loans and receivables	**5 001**	3 880	7
Reinsurance contracts	**1 519**	1 439	8
Deferred income tax	**124**	107	9
Properties under development	**98**	–	10
Insurance and other receivables	**2 857**	2 657	11
Current income tax assets	**108**	69	25.1
Cash and cash equivalents	**19 424**	16 957	12
Non-current assets held for sale	**680**	865	24
Total assets	**343 143**	302 604	
EQUITY			
Equity attributable to owners of the parent	**23 473**	23 517	
Share capital	**13 803**	13 814	13
Other components of equity	**1 631**	1 572	14
Retained earnings	**8 039**	8 131	
Preference shares	**–**	500	15
Non-controlling interests	**391**	281	
Total equity	**23 864**	24 298	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**96 817**	88 116	16
Financial instruments			
Investment contracts	**183 506**	156 929	17
– with discretionary participation features (DPF)	**24 937**	23 696	
– designated at fair value through income	**158 569**	133 233	
Designated at fair value through income	**18 361**	15 246	19
Derivative financial instruments	**2 545**	2 040	6.3
Amortised cost	**1 246**	854	20
Deferred income tax	**3 917**	3 934	9
Employee benefit obligations	**1 328**	1 206	21.2
Other payables	**11 112**	9 517	22
Provisions	**180**	153	23
Current income tax liabilities	**267**	311	25.1
Total liabilities	**319 279**	278 306	
Total equity and liabilities	**343 143**	302 604	

Income statement
for the year ended 30 June 2013

	2013 Rm	2012 Rm	Notes
Insurance premiums	**26 436**	21 444	
Insurance premiums ceded to reinsurers	**(3 132)**	(2 750)	
Net insurance premiums	**23 304**	18 694	26
Fee income	**6 234**	5 248	27
Investment contracts	**1 901**	1 455	
Trust and fiduciary services	**1 875**	1 546	
Health administration	**1 866**	1 799	
Other fee income	**592**	448	
Investment income	**13 537**	13 100	28
Net realised and fair value gains	**29 152**	13 989	29
Net income	**72 227**	51 031	
Insurance benefits and claims	**21 873**	20 452	
Insurance claims recovered from reinsurers	**(1 546)**	(1 476)	
Net insurance benefits and claims	**20 327**	18 976	30
Change in liabilities	**9 677**	3 354	
Change in insurance contract liabilities	**8 525**	4 277	16
Change in investment contracts with DPF liabilities	**1 237**	(694)	17
Change in reinsurance provisions	**(85)**	(229)	8
Fair value adjustments on investment contract liabilities	**22 614**	12 092	17
Fair value adjustments on collective investment scheme liabilities	**882**	619	
Depreciation, amortisation and impairment expenses	**1 144**	1 008	31
Employee benefit expenses	**4 494**	3 874	32
Sales remuneration	**3 015**	2 850	33
Other expenses	**4 249**	3 711	34
Expenses	**66 402**	46 484	
Results of operations	**5 825**	4 547	
Share of profit/(loss) of associates	**12**	(7)	5
Finance costs	**(1 684)**	(899)	35
Profit before tax	**4 153**	3 641	
Income tax expense	**(1 502)**	(1 304)	25.2
Earnings for year	**2 651**	2 337	
Attributable to:			
Owners of the parent	**2 587**	2 301	36
Non-controlling interests	**32**	5	
MMIGL preference shares	**32**	31	
	2 651	2 337	
Basic earnings per ordinary share (cents)	**166**	154	36
Diluted earnings per ordinary share (cents)	**164**	151	36

Statement of comprehensive income
for the year ended 30 June 2013

	2013 Rm	2012 Rm	Notes
Earnings for year	**2 651**	2 337	
Other comprehensive income, net of tax	**88**	121	
Items that may subsequently be reclassified to income	**86**	68	
Exchange differences on translating foreign operations	**86**	71	14
Available-for-sale financial assets	**–**	(3)	14
Items that will not be reclassified to income	**2**	53	
Land and building revaluation	**9**	63	14
Change in non-distributable reserves	**(10)**	1	14
Income tax relating to items that will not be reclassified	**3**	(11)	14
Total comprehensive income for year	**2 739**	2 458	
Attributable to:			
Owners of the parent	**2 654**	2 414	
Non-controlling interests	**53**	13	
MMIGL preference shares	**32**	31	
	2 739	2 458	

Statement of changes in equity

for the year ended 30 June 2013

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Preference shares Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2011	9	13 412	1 466	7 454	22 341	500	298	23 139	
Total comprehensive income	–	–	113	2 301	2 414	31	13	2 458	
Income statement	–	–	–	2 301	2 301	31	5	2 337	
Other comprehensive income	–	–	113	–	113	–	8	121	
Dividend paid	–	–	–	(1 603)	(1 637)	(31)	(3)	(1 637)	
Staff share scheme shares released	–	3	–	–	3	–	–	3	
Increase in treasury shares held on behalf of contract holders	–	2	–	–	2	–	–	2	
Transfer to retained earnings	–	–	(10)	10	–	–	–	–	14
Transactions with non-controlling interest shareholders	–	–	–	(31)	(31)	–	–	(31)	
Transactions with owners	–	–	–	–	–	–	(27)	(27)	
Conversion of preference shares net of share issue costs	–	388	–	–	388	–	–	388	
BEE share-based payments	–	–	3	–	3	–	–	3	
Balance at 1 July 2012	**9**	**13 805**	**1 572**	**8 131**	**23 517**	**500**	**281**	**24 298**	
Total comprehensive income	**–**	**–**	**67**	**2 587**	**2 654**	**32**	**53**	**2 739**	
Income statement	**–**	**–**	**–**	**2 587**	**2 587**	**32**	**32**	**2 651**	
Other comprehensive income	**–**	**–**	**67**	**–**	**67**	**–**	**21**	**88**	
Dividend paid	**–**	**–**	**–**	**(2 886)**	**(2 886)**	**(32)**	**(97)**	**(3 015)**	
Increase in treasury shares held on behalf of contract holders	**–**	**(4)**	**–**	**–**	**(4)**	**–**	**–**	**(4)**	
Transfer to retained earnings	**–**	**–**	**(8)**	**8**	**–**	**–**	**–**	**–**	14
Transactions with non-controlling interest shareholders	**–**	**–**	**–**	**87**	**87**	**–**	**–**	**87**	
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**39**	**39**	14(f)
Share buy-backs	**–**	**(7)**	**–**	**–**	**(7)**	**(500)**	**–**	**(507)**	
Business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**115**	**115**	
Profit on preference share buy-back	**–**	**–**	**–**	**112**	**112**	**–**	**–**	**112**	
Balance at 30 June 2013	**9**	**13 794**	**1 631**	**8 039**	**23 473**	**–**	**391**	**23 864**	

Statement of cash flows
for the year ended 30 June 2013

	2013 Rm	2012 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(3 037)**	(11 535)	37.1
Interest received	**10 496**	9 338	
Dividends received	**2 241**	3 010	
Income tax paid	**(1 692)**	(1 049)	37.2
Interest paid	**(1 687)**	(906)	37.3
Net cash in/(outflow) from operating activities	**6 321**	(1 142)	
Cash flow from investing activities			
Acquisition of subsidiaries	**(411)**	(157)	38
Transactions with minority shareholders	**73**	–	
Transaction costs on acquisition of subsidiaries and associates	**(6)**	(3)	
Loans advanced to related parties	**(68)**	(316)	
Dividends from associates	**–**	24	
Purchase of owner-occupied properties	**(36)**	(11)	
Disposal of owner-occupied properties	**–**	3	
Purchase of property and equipment	**(206)**	(190)	
Disposal of property and equipment	**8**	13	
Purchase of intangible assets	**(109)**	(60)	
Disposal of intangible assets	**2**	–	
Net cash outflow from investing activities	**(753)**	(697)	
Cash flow from financing activities			
Shares repurchased and cancelled	**(7)**	–	
Increase in/(repayment of) other borrowings	**309**	(175)	
Dividends paid to equity holders	**(2 886)**	(1 603)	
Preference shares acquired	**(388)**	–	
Preference share dividends paid	**(32)**	(31)	
Payments for purchase of shares to non-controlling interest shareholders	**–**	(63)	
Dividends paid to non-controlling interest shareholders	**(97)**	(3)	
Net cash outflow from financing activities	**(3 101)**	(1 875)	
Net cash flow	**2 467**	(3 714)	
Cash resources and funds on deposit at beginning	**16 957**	20 671	
Cash resources and funds on deposit at end	**19 424**	16 957	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**19 424**	16 957	12
	19 424	16 957	

Group accounting policies

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements, as set out below, 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 Ltd 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

Other measurement basis

- insurance contracts, investment contracts with discretionary participation features (DPF) and reinsurance contracts valued using the *financial soundness valuation* basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- employee benefit obligations measured using the projected unit credit method
- investments in associates measured using the equity method of accounting or carried at fair value
- non-current assets and liabilities held for sale measured at the lower of carrying value or fair value less cost to sell

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. 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 on page 148.

The preparation of the group's consolidated results was supervised by the group finance director, Preston Speckmann, BCompt (Hons), CA(SA) and have been audited by PricewaterhouseCoopers Inc. in compliance with the requirements of the Companies Act, 71 of 2008.

Reclassifications

The group's June 2012 results have been restated for the following reclassifications:

- The liquidity of certain items in the statement of financial position was re-assessed, which resulted in reinsurance contracts and insurance and other receivables being moved in the statement of financial position.
- Further alignments within financial assets, classification-related, have been made in the current period and as a result certain balances have been restated. These alignments did not result in a change to the statement of financial position or income statement but only to certain detailed financial asset related tables.
- The comparative segmental information has been restated, where appropriate, to ensure alignment with the way in which the chief operating decision-maker, being the MMI Executive Committee, monitors and evaluates the performance of the various segments of the business.
- The table illustrating the concentration of individual insurance contract benefits has been revised to correctly reflect the sum insured at risk.

These restatements had no impact on the 2013 or 2012 year reported earnings, diluted earnings or headline earnings per share, nor on the net asset value or the statement of cash flows.

Published standards, amendments and interpretations effective for June 2013 financial period

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2012 and have been implemented in accordance with the transitional provisions of these standards:

- IAS 1 (amendment) – Presentation of financial statements: presentation of items of other comprehensive income. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately.

This amendment had no financial impact on the group's financial statements.

Group accounting policies continued

Standards, amendments to and interpretations of published standards that are effective but have been early adopted by the group

- IAS 12 (amendment) – Deferred tax: recovery of underlying assets. Although effective from annual periods beginning on or after 1 January 2012, this standard was early adopted by the group for the June 2011 financial period.

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the group

- IFRS 7 (amendment) – Financial instruments: disclosures – offsetting financial assets and financial liabilities (effective from annual periods beginning on or after 1 January 2013).
- IFRS 10 – Consolidated financial statements (effective from annual periods beginning on or after 1 January 2013).
- IFRS 11 – Joint arrangements (effective from annual periods beginning on or after 1 January 2013).
- IFRS 12 – Disclosure of interests in other entities (effective from annual periods beginning on or after 1 January 2013).
- IFRS 13 – Fair value measurement (effective from annual periods beginning on or after 1 January 2013).
- IAS 19 (amendment) – Employee benefits (effective from annual periods beginning on or after 1 January 2013).
- IAS 27 (revised) – Separate financial statements (effective from annual periods beginning on or after 1 January 2013).
- IAS 28 (revised) – Investments in associates and joint ventures (effective from annual periods beginning on or after 1 January 2013).
- IFRS 10, IFRS 12 and IAS 27 (amendments) – Investment entities (effective from annual periods beginning on or after 1 January 2014).
- IAS 32 (amendment) – Financial instruments: presentation – offsetting financial assets and financial liabilities (effective from annual periods beginning on or after 1 January 2014).
- IAS 36 (amendment) – Impairment of assets – recoverable amount disclosures for non-financial assets (effective from annual periods beginning on or after 1 January 2014).
- IAS 39 (amendment) – Financial instruments: recognition and measurement – novation of derivatives and continuation of hedge accounting (effective from annual periods beginning on or after 1 January 2014).
- IFRIC 21 – Levies (effective from annual periods beginning on or after 1 January 2014).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2015).

Initial high-level assessments indicate that the most significant impact could arise from IFRS 10 where the concept of an agent and a principal may lead to more entities, particularly collective investment schemes and cell captives, being consolidated. IFRS 9 will result mainly in changes to the categories of financial assets presented in the statement of financial position, as well as causing fair value movements (relating to own credit risk) on financial liabilities designated as at fair value through income to be recorded in other comprehensive income. Management is currently assessing the impact of the above amendments in more detail.

Improvements project amendments

- IAS 1 – Presentation of financial statements (effective from annual periods beginning on or after 1 January 2013).
- IAS 16 – Property, plant and equipment (effective from annual periods beginning on or after 1 January 2013).
- IAS 32 – Financial instruments: presentation (effective from annual periods beginning on or after 1 January 2013).
- IAS 34 – Interim financial reporting (effective from annual periods beginning on or after 1 January 2013).

Management is currently assessing the impact of these improvements, but it is not expected to be significant.

Standards, amendments to and interpretations of published standards that are not yet effective and are not currently relevant to the group's operations

- IFRS 1 – First-time adoption of International Financial Reporting Standards (effective from annual periods beginning on or after 1 January 2013).
- IFRIC 20 – Stripping costs in the production phase of a surface mine (effective from annual periods beginning on or after 1 January 2013).

Improvements project amendments

- IFRS 1 – First-time adoption of International Financial Reporting Standards (effective from annual periods beginning on or after 1 January 2013).

CONSOLIDATION

Subsidiaries

Subsidiaries, including collective investment schemes and special purpose entities, are consolidated from the date on which *effective control* is transferred to the group, and are no longer consolidated from the date that control ceases. 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.

De facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies.

Initial measurement

The purchase 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 purchase consideration given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). 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.

Subsequent measurement – MMI Holdings Ltd separate financial statements

Subsidiary companies are stated at cost less any impairment losses.

Impairment – MMI Holdings Ltd separate financial statements

The impairment of investments in subsidiary companies is assessed annually by considering the future expected cash flows or the fair value of the subsidiary.

Gains and losses on disposal

Gains and losses on disposal of subsidiaries are included in the income statement as investment income.

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.

Associates

Associates are all entities, including collective investment schemes, 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, other than investments in collective investment schemes, 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.

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

Group accounting policies continued

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.

Acquisition of subsidiaries/businesses under common control

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

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent.

Transactions and balances

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

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

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.

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

All business combinations are accounted for by applying the purchase method of accounting.

The initial cost of a business combination is adjusted if the agreement provides for adjustments to the cost that are contingent on one or more future events.

At the acquisition date, goodwill represents the excess of the cost of the business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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 goodwill exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Impairment losses on goodwill are not reversed.

Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the 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.

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 approximately 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.

Deferred acquisition costs (DAC)

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

Impairment

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

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 fair value in an arm's length transaction between knowledgeable and willing parties, 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 *value of new business*).

Subsequently, the brand and broker networks are amortised over their expected useful lives, being 20 years and five years respectively.

Group accounting policies continued

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.

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

OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the 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 discounted cash flow techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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.

Gains and losses

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

PROPERTY AND EQUIPMENT

Properties under development

Properties under development are properties under construction that are not yet available to earn rentals for use in the supply of services or for administrative purposes. These properties are presented as part of property and equipment, unless their future use is as investment properties.

Measurement

Properties under development are measured at cost directly attributable to the development of these properties, unless their future use is as investment properties.

Impairment

Properties under development are reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the cost of the asset capitalised to date exceeds the recoverable amount, which is the discounted net value of assumed future rentals.

Equipment

Measurement

Equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

All assets are depreciated using the straight-line method to allocate their costs, less their residual values, over their estimated useful lives, as follows:

Furniture and fittings	3 – 5 years
Computer equipment	3 – 4 years
Motor vehicles	5 – 6 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

Gains and losses

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts and are included in the income statement in the year of disposal.

Impairment

Equipment 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 immediately 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 of the asset and its value in use.

INVESTMENT PROPERTIES

Properties under development

Properties that are under construction or development for future use as investment property are accounted for as investment properties.

Measurement

Properties under development are measured at fair value. However, where fair value is not considered reliable, the properties are measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliable.

Completed 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.

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

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

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

Transfers to and from investment properties

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

Properties held under operating leases

Properties held under operating leases are classified as investment properties as long as they are held for long-term rental yields and not occupied by the group. The initial cost

of these properties is the lower of the fair value of the property and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses

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

FINANCIAL INSTRUMENTS

Recognition and measurement

The group classifies its financial assets into the following categories:

- financial assets at fair value through income, including derivative financial instruments
- loans and receivables
- held-to-maturity financial assets
- available-for-sale financial assets

The group classifies its financial liabilities into the following categories (refer to policy on financial liabilities for more details):

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

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
  – significant embedded derivatives that clearly require bifurcation.

  These assets are initially recognised at fair value and transaction costs directly attributable to acquiring them are expensed in the income statement in net realised and fair value gains. Subsequent fair value adjustments are recognised in the income statement.

- **Loans and receivables**

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held for trading and those designated at fair value through income or available-for-sale assets.

- **Held-to-maturity financial assets**

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the group has the positive intention and ability to hold to maturity.

- **Available-for-sale financial assets**

  Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Recognition and measurement

A financial asset or 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.

Purchases and sales of financial instruments are recognised on trade date, being the date on which the group commits to purchase or sell the financial instrument. Financial instruments are initially recognised at fair value plus, in the case of a financial instrument not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Financial instruments at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment.

The fair value of quoted investments is based on current bid prices. 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 note 51. These include discounted cash flow analysis and adjusted price earnings ratios. Unquoted securities are valued at the end of every reporting period.

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

Impairment of financial assets

- Financial assets carried at fair value – available-for-sale

  Equity investments

  At each reporting date the group assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not subsequently reversed in the income statement.

  Debt securities

  For debt securities, the group uses the criteria referred to under loans and receivables below. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the income statement.

- Loans and receivables

  A provision for loans and receivables 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.

Derecognition of financial instruments

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

Realised and unrealised gains and losses

Financial instruments at fair value through income

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

Available-for-sale assets

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When these assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised and fair value gains or losses. Interest and dividend income arising on these assets are recognised and disclosed separately under investment income in the income statement.

Changes in the fair value of equity securities denominated in a foreign currency and classified as available-for-sale are recognised in other comprehensive income. Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences resulting from changes in the amortised cost are recognised in the income statement; translation differences resulting from other changes are recognised in other comprehensive income.

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.

Group accounting policies continued

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.

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 discounted cash flow 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.

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 quoted bid prices while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

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

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

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within net realised and fair value gains and losses.

Amounts accumulated in equity are recycled to income in the periods in which the hedged item (forecasted transaction or a firm commitment) affects the income statement (for example, when the hedged forecast transaction takes place). However, when the hedged forecast transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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.

PROPERTIES UNDER DEVELOPMENT – CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and functions, or their ultimate purpose or use.

A group of contracts is treated as a single construction contract when the group of contracts is negotiated as a single package and the contracts are so interrelated that they are, in effect, part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence.

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised using the percentage completion method. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The group uses the "percentage of completion method" to determine the appropriate costs to recognise in a given period. The stage of completion is measured with reference to the contract costs or major activity incurred up to the reporting date as a percentage of total estimated costs or major activity for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion and are presented as contracts in progress.

The group also presents as contracts in progress the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The group presents as a liability (excess billings over work done) the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

CASH AND CASH EQUIVALENTS

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

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.

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. The consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects on the subsequent sale, is included in equity.

COMPOUND FINANCIAL INSTRUMENTS

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.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

DIVIDENDS PAID

Dividends paid to shareholders of the company are recognised on declaration date.

LONG-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 divided 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.

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 significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

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

Contracts with discretionary participation features

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

Insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to insurance contracts and investment contracts with DPF are measured in accordance with the *financial soundness valuation* (FSV) basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The FSV basis is based on the 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 changes in estimates are reflected in the income statement as they occur.

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, *bonus stabilisation accounts* (BSAs) are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.

- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For group risk business, liabilities are held to reflect claims incurred but not reported (IBNR).
- For conventional non-profit business, including non-profit annuities and guaranteed endowment 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.
- 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.
- Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or else as percentages of premium, based on historical experience. Outstanding reported claims are disclosed in other payables.

Where contract holders are entitled to a partial surrender, in respect of certain policies, any partial surrender is recorded as a surrender claim in the income statement and the contract holder liability is therefore reduced.

Compulsory and discretionary margins

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

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

- Additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to reverse the capitalisation of future profits to ensure that the profits are recognised 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 released 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 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.
- Future profits from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Future profits from voluntary group risk business are not recognised until they are earned.
- 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. Explicit liabilities are set aside for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.

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.

Group accounting policies continued

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.

Impairment of reinsurance assets

If there is *objective evidence* that the 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.

Insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the 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.

Capitation contracts

The group enters into *capitation contracts* with medical schemes. These contracts are short-term health benefit insurance contracts.

Measurement

The liability for *capitation contracts* comprises provisions for the group's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims-handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the membership profile according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The group does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

Capitation premiums

Capitation premiums are received monthly, based on participating client scheme membership. Capitation premium income is earned from the date of attachment of risk over the indemnity period, on an accrual basis.

Capitation benefits incurred

Gross capitation benefits incurred are the total estimated cost of all claims arising from the healthcare events that occurred in the year and for which the group is responsible, whether or not reported by the end of the year. These claims include participating client scheme member medical claims, including hospital, primary care and chronic medication expenses.

Capitation benefits incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from covered members for co-payments and savings plan accounts; and
- claims for services rendered during the previous year not included in the outstanding claims provisions for that year, net of balances in savings plan accounts and recoveries from covered members for co-payments.

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, contracts with fixed terms and guaranteed terms.

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

For investment contracts, other than those with fixed and guaranteed 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.

Group accounting policies continued

SHORT-TERM INSURANCE CONTRACTS

Premiums

Short-term insurance premiums are accounted for when receivable, net after a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

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 proportion of acquisition costs incurred which corresponds with the unearned premium provision. Deferred acquisition costs are therefore recognised using the same methodologies applied to unearned premiums so as to achieve matching of deferred acquisition costs and the unearned premiums to which these acquisition costs relate. Deferred acquisition costs comprise commission paid for the acquisition of broker sourced business.

Outstanding insurance contract claims

Provision is made on a prudent basis for the estimated final costs of:

- claims notified but not settled at year-end, using the best information available at that time; and
- claims incurred at year-end but not reported until after that date (IBNR), using the best information available at the time. The claims run-off experience prior to the financial year-end is used to estimate the IBNR. Estimates provide for inflation as well as claims-handling and assessing costs. Estimates are adjusted for management's expectations of trends relating to the development of such claims.

FINANCIAL LIABILITIES

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) 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.

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)* under either financial liabilities designated at fair value or as financial liabilities at amortised cost.

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 designated at fair value through income or as loans and receivables at amortised cost.

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

Financial liabilities 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

At initial recognition, the fair value of the liability component of the convertible redeemable preference shares or convertible bonds 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. The dividends on these preference shares are recognised in the income statement in finance costs.

Subordinated redeemable debentures

These debentures are recognised initially at fair value, net of transaction costs incurred. The debentures are subsequently stated 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 debentures, using the *effective interest rate method*. The interest on these redeemable debentures are recognised in the income statement in finance costs.

Accounts payable

Accounts payable are initially carried at fair value and subsequently at amortised cost using the *effective interest rate method*.

DEFERRED INCOME TAX

Measurement

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

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

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

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

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)

On 1 April 2012 DWT became effective and replaced secondary tax on companies (STC). DWT is levied on the shareholders (or beneficial owners) receiving the dividend.

Prior to 1 April 2012

South African resident companies were subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax, on distributed income. A company incurred STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC was not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends was recognised as a taxation charge in the income statement in the same period that the related dividend was accrued as a liability. The dividend declared was reduced by dividends received during the dividend cycle. Where dividends declared

exceeded the dividends received during a cycle, STC was payable at the then current STC rate (10%) on the net amount. Where dividends received exceeded dividends declared within a cycle, there was no liability to pay STC. The potential tax benefit related to excess dividends received was carried forward to the next dividend cycle as an STC credit. Deferred tax assets were recognised on unutilised STC credits to the extent that it was probable that the group would declare future dividends to utilise such STC credits.

After 1 April 2012

Shareholders are now subject to DWT on dividends received, unless they are exempt in terms of the amended tax law. DWT is levied at 15% 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.

The deferred tax asset is not raised on unutilised STC credits as the STC credits are now available for the benefit of the group's shareholders and not the group.

INDIRECT TAXATION

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

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.

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.

PROVISIONS

Provisions are recognised when, as a result of past events, the group has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

Onerous contracts

The group recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

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.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The group provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

- Defined contribution funds

  A defined contribution scheme is a fund under which the group pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The group's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- Defined benefit funds

  A defined benefit scheme is a fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement, unless the changes to the pension fund are conditional on the employees remaining in service for a specified period of time, known as the vesting period. In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets plus/minus any unrecognised amounts permitted by IAS 19 – Employee Benefits – yields a debit balance. In such circumstances, the debit balance recognised as an asset in the group's statement of financial position cannot exceed the sum of (i) unrecognised net costs and (ii) the present value of any economic benefits available to the group in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the group the rules of the fund are considered.

Post-retirement medical aid obligations

The group provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to the income statement.

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. The group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal, or providing termination benefits as a result of an offer to encourage voluntary redundancy.

Leave pay liability

The group recognises a liability for the amount of 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.

Group accounting policies continued

Bonus plans

The group pays performance bonuses to senior employees of the group and thirteenth cheque bonuses to certain staff members. Performance bonuses are based on certain objectives, taking into account past business experience and future strategic issues, agreed upon by the board of directors of the holding company. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The group operates equity-settled and cash-settled share-based compensation plans. For share-based payment transactions that are settled in the equity of the parent or another group company or 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 either equity or cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations. The group measures the goods or services received as an equity-settled share-based payment transaction when the awards granted are its own equity instruments or the group has no obligation to settle the share-based transaction in cash. In all other circumstances, the group measures the goods or services received as a cash-settled share-based payment transaction.

Equity-settled compensation plans

The fair value of the employee services received in exchange for the grant of the holding company shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions, such as the resignation of employees and retrenchment of staff, are included in assumptions regarding the number of shares expected to vest, which 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 equity.

The fair value of equity instruments granted is determined by using standard option pricing models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments, and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instrument.

As the holding company grants the shares to certain subsidiary employees, the carrying value of the investment in the subsidiary is increased in the holding company's financial statements, with a corresponding increase in the fair value reserve. The subsidiary recognises the expense and an equivalent increase in equity.

Cash-settled compensation plans

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 *embedded value* 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.

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 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.

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:

Fee income

Fees received on investment management service contracts

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

Front-end fees are deferred and released to income when the services are rendered over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the group are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered. 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.

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 no economic benefit associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

EXPENSE RECOGNITION

Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

Finance costs

Finance costs are recognised in the income statement, using the *effective interest rate method*, and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the MMI Executive Committee that makes strategic decisions. Refer to segmental report for more details.

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:

- Impairment testing of intangibles – note 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Impairment of available-for-sale equity and debt instruments – note 6.4
- Provision for current and deferred tax – note 9
- Assumptions and estimates of contract holder liabilities – note 18
- Valuation assumptions for financial instruments – note 51

Segmental report
for the year ended 30 June 2013

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 committee considers the business from both a geographic and product perspective. The South African operations are segregated into Momentum Retail, Metropolitan Retail, Momentum Employee Benefits, Momentum Investments, Metropolitan Health and Shareholder Capital (which includes Momentum Short-term Insurance (MSTI), Balance Sheet Management (BSM), other support services and growth initiatives). The non-South African life insurance and health companies are all managed as one operating segment, Metropolitan International.

For management purposes, the group is organised into the following reporting segments:

- Momentum Retail: Caters for the financial needs of clients in the middle to upper-income and wealth market segments in South Africa. Product offering: Best-of-breed and fit-for-purpose wealth creation and preservation, risk (insurance) and savings (income) products.
- Metropolitan Retail: Focuses on meeting the needs of clients in the lower to middle-income market, including extended families. Product offering: Savings, income generation and income protection (risk) products.
- Momentum Employee Benefits: Provides income protection and continuation for employees, liability management for employers and retirement funds, and administration for selected retirement funds in South Africa. Product offering: Administration, insurance and investment solutions for employers and retirement funds in large corporate and the small, micro and medium enterprise (SMME) market segments.
- Metropolitan International: Provides products for retail and institutional customers in Africa for: health insurance and healthcare administration, risk savings and investment products, retirement fund administration, and short-term and long-term insurance.
- Momentum Investments: A full-service investment manager in South Africa, Africa and selected international markets. Product offering: Active and passive investment management (local and international), alternative investment management, multi-management, collective investment management, property investment management.
- Metropolitan Health: A leading player in the health industry for public sector and corporate clients plus open schemes in South Africa. Product offering: medical scheme administration, managed healthcare, healthcare-related IT and open scheme distribution.
- Shareholder Capital: Manages the holding company activities and includes BSM. BSM manages the group's strategic balance sheet risks, focusing on the financial position of shareholders and including capital, corporate action, strategic funding and liquidity risk, credit risk, asset-liability matching (with a primary focus on guaranteed liabilities), group treasury, performance measurement and market risk. It includes MSTI, other support services and growth initiatives.

Inter-segment fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Inter-segment charges are eliminated in the 'Other 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 excess, investment variances, basis changes, merger costs, STC (prior year), certain non-recurring items, and the amortisation of intangible assets acquired in business combinations. For insurance operating segments, diluted core headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a group basis and is therefore included in the Shareholder Capital segment.

A reconciliation of diluted core headline earnings to earnings is provided in note 36.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The adjustments are shown in two columns:

- The 'Adjustments for FNB Life' column reconciles the 10% of FNB Life included in each of the relevant lines to the figures included under IFRS in terms of the reinsurance arrangement.
- The 'Other 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 2013

2013	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm
Revenue				
Net insurance premiums	18 575	6 246	12 072	2 535
Recurring premiums	7 611	5 013	6 989	2 244
Single premiums	10 964	1 233	5 083	291
Fee income	2 369	134	862	145
External fee income	2 369	134	862	145
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders	18 609	4 509	9 240	1 340
External payments to contract holders	18 609	4 509	9 240	1 340
Inter-segmental payments to contract holders	–	–	–	–
Other expenses	3 215	2 029	983	1 052
Sales remuneration	1 645	871	77	335
Administration expenses[2]	1 570	1 158	906	715
Amortisation due to business combinations and impairments	–	–	–	2
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	741	374	107	68
Diluted core headline earnings	1 179	509	330	108
Operating profit	1 638	707	448	145
Tax on operating profit	(459)	(198)	(118)	(37)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	153 463	29 070	54 614	7 656

[1] The 'Other reconciling items' column includes: an adjustment to reverse investment contract premiums (R33 609 million) and claims (R29 034 million); grossing up of fee income and expenses relating to properties under development (R121 million); corporate restructuring expenses of R67 million; direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; and other minor adjustments to expenses (R88 million), sales remuneration (R7 million) and fee income (R90 million).

[2] Administration expenses for the current year include the following relating to new acquisitions: Metropolitan International – R66 million relating to Momentum Namibia; Momentum Investments – R201 million relating to Eris Property Group; and Shareholder Capital – R28 million relating to Momentum Short-term Insurance.

[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 R20 218 million, and the total of such non-current assets located in other countries is R718 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Other reconciling items[1] Rm	Adjustments for FNB Life Rm	IFRS total Rm
16 819	193	299	56 739	(33 609)	174	23 304
–	193	287	22 337	(5 063)	174	17 448
16 819	–	12	34 402	(28 546)	–	5 856
1 467	1 772	190	6 939	(716)	11	6 234
1 467	1 772	190	6 939	211	11	7 161
–	–	–	–	(927)	–	(927)
15 241	182	269	49 390	(29 066)	3	20 327
15 241	182	269	49 390	(29 034)	3	20 359
–	–	–	–	(32)	–	(32)
1 215	1 619	700	10 813	1 894	195	12 902
–	5	34	2 967	(17)	65	3 015
948	1 578	310	7 185	276	130	7 591
1	15	39	57	795	–	852
–	–	–	–	220	–	220
266	21	81	368	1 570	–	1 938
–	–	236	236	–	–	236
–	–	–	–	(950)	–	(950)
86	37	276	1 689	(187)	–	1 502
175	151	789	3 241	–	–	3 241
198	171	205	3 512	–	–	3 512
(54)	(30)	(58)	(954)	–	–	(954)
43	14	847	904	–	–	904
(12)	(4)	(205)	(221)	–	–	(221)
32 703	11	3 250	280 767	(444)	–	280 323

Segmental report continued
for the year ended 30 June 2013

Restated 2012	Momentum Retail[2] Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm
Revenue				
Net insurance premiums	17 148	6 042	9 712	1 960
Recurring premiums	7 376	4 760	5 990	1 639
Single premiums	9 772	1 282	3 722	321
Inter-segmental premiums	–	–	–	–
Fee income	1 751	130	932	129
External fee income	1 751	130	932	129
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders[2]	16 095	5 049	9 033	1 099
External payments to contract holders	16 095	5 049	9 033	1 099
Inter-segmental payments to contract holders	–	–	–	–
Other expenses	3 217	1 863	991	841
Sales remuneration	1 582	778	166	247
Administration expenses	1 616	1 085	819	574
Amortisation due to business combinations and impairments	19	–	6	20
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	434	232	128	44
Diluted core headline earnings	1 064	438	249	57
Operating profit	1 472	609	351	77
Tax on operating profit	(408)	(171)	(102)	(20)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	131 252	31 064	43 898	6 326

[1] The 'Other reconciling items' column includes: an adjustment to reverse investment contract premiums (R26 580 million) and claims (R25 868 million); direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; Namibian BEE cost (R3 million) and other minor adjustments to expenses (R41 million), sales remuneration (R17 million) and fee income (R8 million).

[2] The R799 million payments to contract holders in Shareholder Capital is related to the maturity of certain corporate policies administered by Balance Sheet Management.

[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 R19 464 million, and the total of such non-current assets located in other countries is R725 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Other reconciling items[1] Rm	Adjustments for FNB Life Rm	IFRS total Rm
10 661	29	–	45 552	(27 044)	186	18 694
–	29	–	19 794	(4 733)	186	15 247
10 661	–	–	25 758	(21 847)	–	3 911
–	–	–	–	(464)	–	(464)
1 099	1 701	82	5 824	(577)	1	5 248
1 099	1 701	82	5 824	(8)	1	5 817
–	–	–	–	(569)	–	(569)
12 772	24	799	44 871	(25 898)	3	18 976
12 772	24	799	44 871	(25 868)	3	19 006
–	–	–	–	(30)	–	(30)
959	1 560	477	9 908	1 342	193	11 443
4	–	–	2 777	(17)	90	2 850
730	1 507	236	6 567	(38)	103	6 632
12	53	40	150	614	–	764
–	–	–	–	302	–	302
213	–	–	213	1 050	–	1 263
–	–	201	201	–	–	201
–	–	–	–	(569)	–	(569)
42	64	401	1 345	(41)	–	1 304
125	133	889	2 955	–	–	2 955
146	170	306	3 131	–	–	3 131
(40)	(51)	(34)	(826)	–	–	(826)
27	17	767	811	–	–	811
(8)	(3)	(150)	(161)	–	–	(161)
30 055	1	2 902	245 498	(453)	–	245 045

Segmental report continued
for the year ended 30 June 2013

Analysis of reclassifications – 2012	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits Rm	Metropolitan International Rm
The comparative segmental information has been restated where appropriate to ensure alignment with the way in which the chief operating decision-maker, being the MMI Executive Committee, monitors and evaluates the performance of the various segments of the business. Refer to table below for detail. These restatements had no impact on core headline earnings.				
Fee income				
Published 30 June 2012	1 797	130	938	129
Reclassifications	(46)	–	(6)	–
Restated 30 June 2012	1 751	130	932	129
Actuarial liabilities				
Published 30 June 2012	131 723	31 064	43 898	6 326
Reclassifications	(471)	–	–	–
Restated 30 June 2012	131 252	31 064	43 898	6 326

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Other reconciling items Rm	Adjustments for FNB Life Rm	IFRS total Rm
1 099	1 701	30	5 824	(577)	1	5 248
–	–	52	–	–	–	–
1 099	1 701	82	5 824	(577)	1	5 248
30 055	1	2 431	245 498	(453)	–	245 045
–	–	471	–	–	–	–
30 055	1	2 902	245 498	(453)	–	245 045

Segmental report continued
for the year ended 30 June 2013

	2013 Rm	2012 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	**18 609**	16 095
Death and disability claims	**3 018**	2 940
Maturity claims	**5 726**	4 844
Annuities	**3 849**	3 420
Withdrawal benefits	**140**	48
Surrenders	**6 655**	5 684
Reinsurance recoveries	**(779)**	(841)
Metropolitan Retail	**4 509**	5 049
Death and disability claims	**991**	1 030
Maturity claims	**1 688**	1 512
Annuities	**540**	761
Withdrawal benefits	**61**	37
Surrenders	**1 324**	1 796
Reinsurance recoveries	**(95)**	(87)
Momentum Employee Benefits	**9 240**	9 033
Death and disability claims	**3 241**	2 791
Maturity claims	**491**	471
Annuities	**1 176**	938
Withdrawal benefits	**2 550**	2 344
Terminations	**834**	676
Disinvestments	**1 620**	2 382
Reinsurance recoveries	**(672)**	(569)
Metropolitan International (individual and employee benefits)	**1 340**	1 099
Death and disability claims	**556**	455
Maturity claims	**234**	209
Annuities	**84**	51
Withdrawal benefits	**70**	95
Surrenders	**362**	266
Terminations	**64**	39
Disinvestments	**–**	5
Reinsurance recoveries	**(30)**	(21)
Investments – withdrawal benefits	**15 241**	12 772
Health claims	**182**	24
Shareholder Capital claims	**269**	799
Segmental payments to contract holders	**49 390**	44 871
Adjusted for payments to investment contract holders	**(29 181)**	(25 992)
Transfers between insurance, investment and investment with DPF business	**147**	124
FNB Life adjustment	**3**	3
Inter-segmental payments to contract holders	**(32)**	(30)
Net insurance benefits and claims (note 30)	**20 327**	18 976

FUNDS RECEIVED FROM CLIENTS	Gross single inflows Rm	Gross recurring inflows Rm	Total gross inflow Rm	Gross outflow Rm	2013 Net inflow/ (outflow) Rm	Restated 2012 Net inflow/ (outflow) Rm
On-balance sheet						
Momentum Retail	10 964	7 611	18 575	(18 609)	**(34)**	1 053
Metropolitan Retail	1 233	5 013	6 246	(4 509)	**1 737**	993
Momentum Employee Benefits	5 083	6 989	12 072	(9 240)	**2 832**	679
Metropolitan International	291	2 244	2 535	(1 340)	**1 195**	861
Momentum Investments	16 819	–	16 819	(15 241)	**1 578**	(2 111)
Metropolitan Health	–	193	193	(182)	**11**	–
Shareholder Capital	12	287	299	(269)	**30**	(799)
Long-term insurance business cash flows	34 402	22 337	56 739	(49 390)	**7 349**	676
Off-balance sheet						
Momentum Retail	14 635	–	14 635	(11 213)	**3 422**	2 542
Momentum Employee Benefits	14	–	14	–	**14**	332
Metropolitan International	987	–	987	(812)	**175**	(5)
Momentum Investments	80 165	4 358	84 523	(92 454)	**(7 931)**	1 019
Momentum Investments – Eris Property Group acquisition	18 678	–	18 678	–	**18 678**	–
Metropolitan Health	–	41 277	41 277	(35 700)	**5 577**	6 171
Total funds received from clients	148 881	67 972	216 853	(189 569)	**27 284**	10 735

NUMBER OF EMPLOYEES	30 June 2013	Restated 30 June 2012
Indoor staff	**9 597**	9 311
Momentum Retail	**1 660**	1 764
Metropolitan Retail	**1 452**	1 431
Momentum Employee Benefits	**1 052**	980
Metropolitan International	**852**	797
Momentum Investments*	**693**	519
Metropolitan Health	**2 947**	2 961
Shareholder Capital		
Balance Sheet Management	**66**	54
Group services	**719**	751
Short-term insurance	**156**	–
Redeployment centre	**–**	54
Field staff	**6 798**	6 549
Momentum Retail	**993**	1 057
Metropolitan Retail	**4 369**	4 179
Metropolitan International	**1 436**	1 313
Total employees	**16 395**	15 860

* The increase in the number of employees of Momentum Investments is mainly due to the acquisition of Eris Property Group with 280 employees.

		2013 Rm	2012 Rm
1	**INTANGIBLE ASSETS**		
	Goodwill	**502**	311
	Value of in-force business acquired	**5 681**	6 008
	Customer relationships	**2 268**	2 416
	Metropolitan and other brands	**963**	1 019
	Broker network	**65**	92
	Deferred acquisition costs	**1 994**	1 899
	Computer software	**296**	253
		11 769	11 998
1.1	**Goodwill**		
	Cost	**563**	372
	Accumulated impairment	**(61)**	(61)
		502	311
	Carrying amount at beginning	**311**	345
	Business combinations (refer to note 38)	**191**	–
	Impairment charges	**–**	(38)
	Other	**–**	4
	Carrying amount at end	**502**	311
	Cash-generating units		
	Metropolitan group – Metropolitan Retail	**170**	170
	Momentum Medical Scheme Administrators (MMSA) – Metropolitan Health	**127**	127
	Momentum Manager of Managers (MOM) – Momentum Investments	**14**	14
	Eris Property Group – Momentum Investments	**191**	–
		502	311

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

- The R170 million goodwill relating to the Metropolitan group resulted from the merger between Metropolitan and Momentum in December 2010.
- The goodwill relating to MMSA was impaired by R35 million in the prior year following the cancellation of a software agreement. No impairment was necessary in the current year.
- Goodwill of R191 million resulted from the acquisition of Eris Property Group in October 2012. Refer to note 38.

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

		2013		2012	
		Risk discount rate	Growth rate	Risk discount rate	Growth rate
1	**INTANGIBLE ASSETS continued**				
1.1	**Goodwill continued**				
	Assumptions				
	Metropolitan group	**10%**	**6%**	10%	6%
	Momentum Medical Scheme Administrators	**22%**	**5%**	22%	5%
	Momentum Manager of Managers	**16%**	**6%**	16%	6%
	Eris Property Group	**10%**	**4%**	–	–

Increasing the discount rate used in the value-in-use calculations relating to MMSA by 1% would have resulted in an impairment of R30 million (2012: R30 million) in the current year. Changes in the assumptions relating to the other CGUs are considered less sensitive. The growth rate for Eris Property Group is after assumed lapse rates and vacancies.

		2013 Rm	2012 Rm
1.2	**Value of in-force business acquired**		
	Acquisition of insurance and investment contracts with DPF		
	Cost	**6 644**	6 644
	Accumulated amortisation	**(963)**	(636)
	Carrying amount	**5 681**	6 008
	Carrying amount at beginning	**6 008**	5 961
	Business combinations (refer to note 38)	**–**	338
	Amortisation charges	**(327)**	(291)
	Carrying amount at end	**5 681**	6 008
	The carrying amount is made up as follows:		
	Sage – Momentum Retail	**780**	819
	Momentum Namibia – Metropolitan International	**302**	338
	Metropolitan/Momentum merger		
	Metropolitan Retail	**3 386**	3 531
	Metropolitan Employee Benefits	**712**	743
	Metropolitan International	**501**	577
		5 681	6 008

As a result of certain insurance contract acquisitions, the group carries an intangible asset representing the present value of in-force business acquired. R302 million (2012: R338 million) resulting from the acquisition of 51% of Momentum Life Assurance Namibia Ltd during June 2012 will be fully amortised by 2051. R4 599 million (2012: R4 851 million) resulting from the merger between Metropolitan and Momentum during December 2010 will be fully amortised by 2041. The amortisation period follows the expected profit emergence pattern of approximately 4% per annum over the life of the related contracts. R780 million (2012: R819 million) relates to the acquisition of Sage and will be fully amortised by 2046.

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.

		2013 Rm	2012 Rm
1	**INTANGIBLE ASSETS continued**		
1.3	**Customer relationships**		
	Cost	**3 276**	3 084
	Accumulated amortisation	**(1 005)**	(665)
	Accumulated impairment	**(3)**	(3)
	Carrying amount	**2 268**	2 416
	Carrying amount at beginning	**2 416**	2 717
	Additions	**–**	1
	Business combinations (refer to note 38)	**276**	10
	Amortisation charges	**(424)**	(309)
	Impairment charges	**–**	(3)
	Carrying amount at end	**2 268**	2 416
	The carrying amount is made up as follows:		
	Metropolitan/Momentum merger		
	Metropolitan Health	**1 099**	1 247
	Asset management – Momentum Investments	**213**	302
	Investment contracts – Momentum Employee Benefits	**656**	697
	Metropolitan Health Namibia Administrators (MHNA) – Metropolitan International	**84**	91
	African Life Health – Metropolitan International	**51**	70
	Momentum Trust Ltd – Momentum Retail	**8**	9
	Eris Property Group – Momentum Investments	**45**	–
	Momentum Short-term Insurance – Shareholder Capital	**112**	–
		2 268	2 416

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations in the current year relate to the acquisition of Eris Property Group (R118 million) and Momentum Short-term Insurance Company Ltd (R158 million). These newly acquired intangibles will be fully amortised by years 2015 and 2027, respectively. The customer relationships that resulted from the merger between Metropolitan and Momentum during December 2010 will be fully amortised by 2021. The balance relating to MHNA arose when the group acquired an additional 5% in MHNA (increasing its holding to 51%) in 2011.

		2013 Rm	2012 Rm
1.4	**Metropolitan and other brands**		
	Cost	**1 104**	1 104
	Accumulated amortisation	**(141)**	(85)
	Carrying amount	**963**	1 019
	Carrying amount at beginning	**1 019**	1 047
	Business combinations (refer to note 38)	**–**	27
	Amortisation charges	**(56)**	(55)
	Carrying amount at end	**963**	1 019

The Metropolitan brand of R938 million (2012: R992 million) was acquired and recognised as a result of the merger between Metropolitan and Momentum during December 2010 and will be fully amortised by 2031. The business combination in the prior year relates to the acquisition of 51% of Momentum Life Assurance Namibia Ltd and will be fully amortised by 2027.

		2013 Rm	2012 Rm
1	**INTANGIBLE ASSETS continued**		
1.5	**Broker network**		
	Cost	**135**	135
	Accumulated amortisation	**(70)**	(43)
	Carrying amount	**65**	92
	Carrying amount at beginning	**92**	119
	Amortisation charges	**(27)**	(27)
	Carrying amount at end	**65**	92
	The broker network was acquired and recognised as a result of the merger between Metropolitan and Momentum during December 2010 and will be fully amortised by 2016.		
1.6	**Deferred acquisition costs**		
	Cost	**3 755**	3 428
	Accumulated amortisation	**(1 761)**	(1 529)
	Carrying amount	**1 994**	1 899
	Carrying amount at beginning	**1 899**	1 790
	Additions	**317**	325
	Amortisation charges	**(224)**	(218)
	Exchange differences	**2**	2
	Carrying amount at end	**1 994**	1 899
1.7	**Computer software**		
	Cost	**518**	427
	Accumulated amortisation	**(220)**	(172)
	Accumulated impairment	**(2)**	(2)
	Carrying amount	**296**	253
	Carrying amount at beginning	**253**	278
	Additions	**109**	60
	Disposals	**(2)**	–
	Amortisation charges	**(65)**	(62)
	Impairment charges	**–**	(24)
	Exchange differences	**1**	1
	Carrying amount at end	**296**	253

The Odyssey policyholder system (Momentum Retail) was impaired in the prior year as a result of the migration onto new systems.

Internally developed software

Included in computer software is a carrying value of R89 million (2012: R56 million) representing internally developed software.

Material computer software

Included in computer software is R75 million (2012: R86 million) relating to the software used by Metropolitan Health which will be fully amortised by 2019. For impairment testing purposes, the recoverable amount was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets for 2014, approved by the board. Cash flows beyond the financial budgets available are extrapolated for five years, using estimated growth rates of 5% (2012: 5%) for both income and expense inflation rates and a cost of capital of 9% (2012: 9%).

		2013 Rm	2012 Rm
2	**OWNER-OCCUPIED PROPERTIES**		
	Owner-occupied properties – at fair value	**1 488**	1 464
	Historical carrying value – cost model	**770**	746
	Fair value at beginning	**1 464**	1 416
	Additions	**36**	11
	Disposals	**–**	(3)
	Revaluations	**28**	72
	Depreciation charges	**(40)**	(32)
	Fair value at end	**1 488**	1 464

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

Critical accounting estimates and judgements

All properties are valued using a discounted cash flow method or the income capitalisation approach based on the aggregate contractual or market-related rent receivable less associated costs. The discounted cash flow takes projected cash flows and discounts them at a rate which is consistent with the comparable market transactions. Any gains or losses arising from changes in fair value are included in the net income or loss for the year. External valuations, by independent valuators, were obtained for certain properties as at 30 June 2013, amounting to 9% (2012: 67%) of the portfolio for the group. Eris Property Group (Eris) performed the independent valuations in the prior year and are no longer considered external since the company was acquired in the current year. Eris is now responsible for the internal valuations of the group.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Capitalisation rate	8.8% – 11.5%	1%	102	(87)
Discount rate	13.5% – 16.0%	1%	31	(29)

Capitalisation and discount rates (2012: 8.8% – 12.0% and 14.5% – 16.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

		2013 Rm	2012 Rm
3	**PROPERTY AND EQUIPMENT**		
	Equipment and leasehold improvements		
	Cost	**1 019**	897
	Accumulated depreciation	**(670)**	(576)
	Accumulated impairment	**(1)**	–
	Carrying amount	**348**	321
	Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
	Carrying amount at beginning	**321**	301
	Additions	**206**	192
	Disposals	**(8)**	(13)
	Business combinations (refer to note 38)	**2**	4
	Depreciation charges	**(174)**	(163)
	Impairment charges	**(1)**	–
	Exchange differences	**2**	–
	Carrying amount at end	**348**	321

		2013 Rm	2012 Rm
4	**INVESTMENT PROPERTIES**		
	At 30 June investment properties comprised the following property types:		
	Industrial	**237**	185
	Shopping malls	**2 936**	2 551
	Office buildings	**3 011**	2 452
	Hotels	**229**	227
	Vacant land	**77**	60
	Other	**40**	35
	Property at valuation	**6 530**	5 510
	Accelerated rental income (refer to note 11)	**(97)**	(95)
		6 433	5 415
	Investment properties under development		
	Fair value at beginning	**–**	21
	Transfer to completed properties	**–**	(21)
	Capitalised development expenditure	**521**	–
	Fair value at end	**521**	–
	Completed properties		
	Fair value at beginning	**5 415**	5 961
	Capitalised subsequent expenditure	**134**	231
	Additions	**137**	111
	Disposals	**(340)**	(181)
	Business combinations (refer to note 38)	**63**	–
	Revaluations	**325**	68
	Change in accelerated rental income	**(7)**	37
	Transfer from/(to) non-current assets held for sale (refer to note 24)	**185**	(812)
	Fair value at end	**5 912**	5 415
	Total investment properties	**6 433**	5 415

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

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2013, amounting to 42% (2012: 62%) of the portfolio for the group. Eris performed the independent valuations in the prior year and are no longer considered external since the company was acquired in the current year. Eris is now responsible for the internal valuations of the group.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Capitalisation rate	7.8% – 11.0%	1%	528	(426)
Discount rate	12.8% – 16.0%	1%	332	(324)

Capitalisation and discount rates (2012: 8.5% – 12.0% and 13.5% – 17.0% 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.

		2013 Rm	2012 Rm
5	**INVESTMENTS IN ASSOCIATES**		
	Equity-accounted associates	**121**	127
	Carrying amount at beginning	**127**	243
	Additions	**41**	62
	Business combinations (refer to note 38)	**5**	–
	Profit on change from associate to subsidiary	**67**	207
	Share of profit/(loss)	**12**	(7)
	Dividends paid	**–**	(24)
	Transfer to subsidiary	**(140)**	(351)
	Other	**9**	(3)
	Carrying amount at end – non-current	**121**	127

Group interest in equity-accounted associates	%*	Carrying value Rm	Assets Rm	Liabilities Rm	Revenue Rm	Earnings Rm
2013						
BVI 290 (Pty) Ltd (BVI 290)	**50%**	**1**	**8**	**(7)**	**1**	**1**
Global Doctors Network (Pty) Ltd (GDN)	**50%**	**42**	**3**	**(1)**	**–**	**–**
Kagiso Empowerment Infrastructure Fund (KEIF)	**50%**	**68**	**68**	**(68)**	**–**	**8**
Khumo Property Management (Pty) Ltd (KPM)	**50%**	**3**	**4**	**(1)**	**3**	**1**
Q Mall (Pty) Ltd (QM)	**50%**	**3**	**5**	**(5)**	**–**	**–**
Siki Fox Properties (Pty) Ltd (SFP)	**50%**	**3**	**22**	**(19)**	**1**	**3**
C Shell 448 (Pty) Ltd (C Shell)	**49%**	**1**	**5**	**(10)**	**–**	**(1)**
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	**27%**	**–**	**2**	**–**	**–**	**–**
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	**25%**	**–**	**206**	**(234)**	**–**	**–**
		121	**323**	**(345)**	**5**	**12**
2012						
Momentum Short-term Insurance Company Ltd	50%	73	106	(30)	145	11
Momentum Life Assurance Namibia (Pty) Ltd	49%	–	–	–	215	(9)
C Shell 448 (Pty) Ltd (C Shell)	49%	2	6	(10)	–	(4)
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	25%	–	166	(262)	–	–
Kagiso Empowerment Infrastructure Fund (KEIF)	50%	52	52	(57)	–	(5)
		127	330	(359)	360	(7)

* Effective group percentage held

5 INVESTMENT IN ASSOCIATES continued

- BVI 290, KPM, QM and SFP are property services companies held by Eris Property Group (Pty) Ltd in the Momentum Investments segment.
- GDN (Metropolitan Health segment) provides services to the healthcare industry.
- KEIF fund relates to an associate held by a consolidated collective investment scheme.
- C Shell (Metropolitan International segment) is held 51% by Kagiso Tiso Holdings. C Shell owns 33% of Silverbridge Holdings Ltd which owns a company specialising in IT insurance software.
- EPF CV owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The group also owns 31.67% of the preference shares in EPF. Refer to note 7. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- MPSS provides funding to affordable housing developments and relates to the Shareholder Capital segment.
- Transfer to subsidiary (2013) – Momentum Short-term Insurance was launched in 2005. It focuses on the distribution of short-term insurance through independent brokers with whom the group has relationships, as well as Momentum's agency force. It forms part of the Shareholder Capital segment. It was an associate until June 2012 after which an additional 50% was acquired. The investment has been accounted for as a subsidiary since then. Refer to note 38.
- Transfer to subsidiary (2012) – Momentum Life Assurance Namibia is a long-term insurance company in Namibia and forms part of the Metropolitan International segment. It was an associate until June 2012 when an additional 51% was acquired. The investment has been accounted for as a subsidiary since then.

	2013 Rm	Restated 2012 Rm
6 FINANCIAL INSTRUMENTS		
6.1 Securities designated at fair value through income		
Equity securities	**81 570**	64 731
Debt securities	**82 020**	79 091
Funds on deposit and other money market instruments	**15 016**	12 468
Unit-linked investments	**92 621**	79 839
	271 227	236 129
Open-ended	**174 706**	146 380
Current	**27 831**	27 230
Non-current	**68 690**	62 519
1 to 5 years	**28 851**	23 115
5 to 10 years	**13 575**	11 838
> 10 years	**26 264**	27 566
	271 227	236 129

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

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

Refer to note 43.1 for details of unlisted financial assets.

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

2012 reclassification
Further classification-related alignments within financial assets have been made in the current year. As a result, June 2012 equity securities decreased by R2 752 million, debt securities increased by R2 061 million, funds on deposit and other money market instruments decreased by R648 million and unit-linked investments increased by R1 339 million.

	2013 Rm	2012 Rm
Scrip lending (included above)		
Carrying value of securities on loan		
Local listed equity securities	**3 555**	3 109

Refer to note 50 for detail on collateral held.

		2013 Rm	2012 Rm
6	**FINANCIAL INSTRUMENTS continued**		
6.2	**Investments in associates designated at fair value through income**		
	Collective investment schemes (refer to Annexure B)	**17 424**	14 333

		2013		2012	
		Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6.3	**Derivative financial instruments**				
	Held for trading	**3 140**	**2 545**	3 529	2 040
	Held for hedging purposes	**33**	**–**	50	–
	Fair value hedges	**33**	**–**	50	–
		3 173	**2 545**	3 579	2 040
	Current	**582**	**339**	565	149
	Non-current	**2 591**	**2 206**	3 014	1 891
		3 173	**2 545**	3 579	2 040

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. In the prior year the notional amounts were disclosed. However, in the current year, this was changed to effective exposure as it better reflects the extent of the risks arising from derivative instruments. 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.

6 FINANCIAL INSTRUMENTS continued

6.3 Derivative financial instruments continued

	2013			2012		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
Derivatives held for trading						
Equity derivatives		**104**	**238**		573	252
Options, OTC	**(74)**	**98**	**90**	(217)	237	62
Options, exchange traded	**(753)**	**6**	**–**	(190)	5	–
Futures, OTC	**106**	**–**	**–**	(48)	14	8
Futures, exchange traded	**432**	**–**	**145**	179	8	1
Swaps, OTC	**(3)**	**–**	**3**	491	309	181
Interest rate derivatives		**2 983**	**1 987**		2 825	1 569
Swaps, OTC	**3 173**	**2 972**	**1 982**	21 918	2 817	1 568
Forward rate agreement, OTC	**(1 019)**	**11**	**5**	–	8	1
Bonds		**51**	**74**		129	130
Options, OTC	**–**	**–**	**–**	49	–	2
Options, exchange traded	**9**	**–**	**–**	27	–	–
Futures, OTC	**(182)**	**–**	**14**	(22)	–	22
Futures, exchange traded	**117**	**–**	**8**	1 746	37	–
Swaps, OTC	**(1)**	**51**	**52**	85	92	106
Credit derivatives		**2**	**–**		2	–
Swaps, OTC	**2**	**2**	**–**	2	2	–
Currency derivatives		**–**	**246**		–	89
Futures, OTC	**58**	**–**	**–**	(18)	–	–
Swaps, OTC	**(246)**	**–**	**246**	89	–	89
Options, exchange traded	**–**	**–**	**–**	19	–	–
Derivatives held for trading		**3 140**	**2 545**		3 529	2 040
Derivatives held for hedging purposes						
Interest rate swaps	**1 000**	**33**	**–**	1 000	50	–
Total derivative financial instruments		**3 173**	**2 545**		3 579	2 040

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.

6 FINANCIAL INSTRUMENTS continued

6.3 Derivative financial instruments continued

Fair value hedges

Fair value hedges are used by the group to protect certain shareholder assets against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The group has one fair value hedge in place with the callable notes (refer to note 19) being the hedged item. The group earns variable interest rates in the shareholder portfolio, while paying fixed interest on the callable notes. The risk has been hedged with a swap agreement with FirstRand Ltd whereby the group earns fixed interest but pays variable interest. This matches the variable nature of the investment income earned on the shareholder portfolio.

	2013 Rm	2012 Rm
Gains/(losses) for the year ended 30 June arising from the change in fair value of the swap agreement and callable notes:		
Interest rate swaps	**(17)**	49
Subordinated call notes	**11**	(56)
Net realised and fair value losses	**(6)**	(7)
Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
On hedging instrument	**(20)**	49
On hedged items attributable to the hedged risk: callable notes	**24**	(43)
Ineffective portion recognised in Net realised and fair value gains	**4**	6

6.4 Available-for-sale

Equity securities		
Local listed	**22**	20
Unlisted	**24**	4
Debt securities	**893**	2 867
Funds on deposit and other money market instruments	**9**	9
Unit-linked investments	**5**	2
	953	2 902
Open-ended	**31**	37
Current	**829**	1 442
Non-current	**93**	1 423
1 to 5 years	**86**	1 415
5 to 10 years	**4**	5
> 10 years	**3**	3
	953	2 902

General

The debt securities relate to listed securities of R451 million (2012: R892 million) and unlisted securities of R442 million (2012: R1 975 million).

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

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

Critical judgements and accounting estimates

The group determines that available-for-sale equity instruments are impaired and recognised as such in the income statement when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates, among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As at 30 June 2013 (and 30 June 2012) the group had no financial instruments with fair values below cost where the decline was considered significant or prolonged.

		2013 Rm	2012 Rm
6	**FINANCIAL INSTRUMENTS continued**		
6.5	**Held-to-maturity**		
	Debt securities		
	Funds on deposit and other money market instruments – current	**69**	60
7	**LOANS AND RECEIVABLES**		
	Accounts receivable	**1 560**	1 379
	Receivables arising from investment contracts	**158**	111
	Unsettled trades	**1 130**	352
	Loans	**2 153**	2 038
	Staff loans	**31**	35
	Loans due from associates	**100**	54
	Preference shares	**51**	–
	Strategic loans	**1**	1
	Empowerment partners	**322**	329
	Other related party loans	**8**	17
	Less: provision for impairment on related party loans	**(33)**	–
	Due from agents, brokers and intermediaries	**297**	341
	Less: provision for impairment	**(111)**	(111)
	Policy loans	**1 326**	1 277
	Other	**161**	95
		5 001	3 880
	Current	**4 349**	3 509
	Non-current	**652**	371
		5 001	3 880
	Reconciliation of aggregated provision accounts		
	Balance at beginning	**111**	105
	Additional provision	**77**	126
	Business combinations	**3**	–
	Utilised/reversed during year	**(47)**	(120)
	Balance at end	**144**	111

Terms and conditions of material loans

- The loan to empowerment partners of R322 million at 30 June 2013 (2012: R329 million) relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 13% (2012: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.
- Included in other loans and receivables is a loan to Racecourse Mall (Pty) Ltd of R37 million. Interest is charged at 4.75% and the loan will be repaid within a year. The loan is secured by the underlying property in the company.

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.

		2013 Rm	2012 Rm
8	**REINSURANCE CONTRACTS**		
	Reinsurance asset relating to long-term insurance	**1 094**	1 062
	Prepaid reinsurance	**425**	377
		1 519	1 439
	Balance at beginning	**1 439**	1 148
	Movement charged to income statement	**85**	229
	Revaluation on insurance contracts	**(11)**	28
	Business combinations	**–**	34
	Exchange differences	**6**	–
	Balance at end	**1 519**	1 439
	Current	**978**	520
	Non-current	**541**	919
		1 519	1 439

Amounts due from reinsurers in respect of claims incurred by the group on contracts that are reinsured are included in insurance and other receivables. Refer to note 11.

		2013 Rm	2012 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	**124**	107
	Deferred tax liability	**(3 917)**	(3 934)
		(3 793)	(3 827)
	Deferred tax is made up as follows:		
	Accruals and provisions	**171**	74
	Accelerated wear and tear	**(14)**	(8)
	Revaluations	**(1 402)**	(1 270)
	Deferred tax on intangible assets as a result of business combinations	**(2 482)**	(2 605)
	Deferred revenue liability	**115**	109
	Difference between published and statutory policyholder liabilities	**652**	719
	Tax losses	**50**	48
	Negative rand reserves	**(398)**	(377)
	Deferred acquisition costs	**(547)**	(517)
	Prepayments	**(1)**	(2)
	Other	**63**	2
		(3 793)	(3 827)
	Current	**(104)**	(217)
	Non-current	**(3 689)**	(3 610)
		(3 793)	(3 827)

		2013 Rm	2012 Rm
9	**DEFERRED INCOME TAX continued**		
	Movement in deferred tax		
	Balance at beginning	**(3 827)**	(3 934)
	Charge to the income statement	**100**	123
	Change in tax rate	**–**	(5)
	Accruals and provisions	**97**	(9)
	Accelerated wear and tear	**(6)**	1
	Revaluations	**(132)**	(60)
	Deferred tax on intangible assets as a result of business combinations	**197**	204
	Deferred revenue liability	**6**	2
	Difference between published and statutory policyholder liabilities	**(67)**	67
	Tax losses	**2**	(69)
	Negative rand reserves	**(21)**	(14)
	Deferred acquisition costs	**(30)**	(18)
	Prepayments	**1**	(1)
	STC credits	**–**	(11)
	Other	**53**	36
	Charge to other comprehensive income (note 14)	**3**	(10)
	Business combinations	**(74)**	(7)
	Exchange differences	**5**	1
	Balance at end	**(3 793)**	(3 827)
	Deferred tax asset on available tax losses and credits not provided for	**226**	274

The deferred tax asset balance relating to STC credits at 1 April 2012 was derecognised as the STC credits are now available for the benefit of the group's shareholders and not the group.

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 R50 million raised due to tax losses, is a deferred tax asset of R44 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 financial budgets approved by management.

No deferred tax liability is recognised on temporary differences of R183 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.

Deferred tax on the revaluation of owner-occupied properties has been calculated using a combination of the normal South African income tax rate and the capital gains tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R30 million (2012: R46 million) lower.

		2013 Rm	2012 Rm
10	**PROPERTIES UNDER DEVELOPMENT**		
	Properties under development resulted from the acquisition of Eris Property Group and comprise:		
	Costs incurred on projects	**1 347**	–
	Funding received	**(1 249)**	–
	Work in progress balance	**98**	–

		2013 Rm	2012 Rm
11	**INSURANCE AND OTHER RECEIVABLES**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 760**	2 562
	Insurance contract holders	**2 158**	1 891
	Investment contract holders with DPF	**77**	127
	Less: provision for impairment	**(50)**	(44)
	Due from reinsurers	**575**	588
	Accelerated rental income (note 4)	**97**	95
		2 857	2 657
	Current	**2 699**	2 533
	Non-current	**158**	124
		2 857	2 657

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

Impairment is mainly due to expected payment defaults.

12	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	**11 783**	10 097
	Funds on deposit and other money market instruments – maturity < 90 days	**7 641**	6 860
		19 424	16 957

Included in cash and cash equivalents is R1 645 million (2012: R108 million) relating to the collateral held in terms of scrip lending agreements. Refer to note 6.1.

13 SHARE CAPITAL AND SHARE PREMIUM

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

Authorised share capital of MMI Holdings Ltd

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

Authorised share capital of MMIGL

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

Issued share capital

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

Share capital and premium

	2013 Rm	2012 Rm
Balance at beginning	**13 814**	13 421
Treasury shares held on behalf of contract holders	**(4)**	2
Conversion of preference shares net of share issue costs	**–**	388
Share buy-back	**(7)**	–
Staff share scheme shares released	**–**	3
	13 803	13 814
Share capital	**9**	9
Share premium	**13 794**	13 805
	13 803	13 814

		2013 Million	2012 Million
13	**SHARE CAPITAL AND SHARE PREMIUM continued**		
	MMI Holdings Ltd ordinary shares		
	Total issued MMI Holdings Ltd shares at 30 June	**1 504**	1 504
	Conversion of preference shares	**66**	66
	Share purchase scheme shares listed during the year	**–**	1
	Total ordinary shares in issue	**1 570**	1 571
	Treasury shares held on behalf of contract holders	**(14)**	(13)
	Basic number of shares in issue	**1 556**	1 558
	Convertible redeemable preference shares	**34**	34
	Diluted number of shares in issue	**1 590**	1 592
	Treasury shares held on behalf of contract holders	**14**	13
	Diluted number of shares in issue for core headline earnings purposes	**1 604**	1 605

MMIGL had 190 million ordinary shares in issue at 30 June 2013 (2012: 190 million).

Preference shares

MMI Holdings Ltd had 34 million A3 preference shares in issue at the beginning of the year. The A1 and A2 preference shares were converted into ordinary shares on a one-for-one basis during June 2012. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 14 and the debt component is disclosed under note 20.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 15.

Dividends

For detail of dividends declared and paid during the year, refer to page 115 of the directors' report.

		2013 Rm	2012 Rm
14	**OTHER COMPONENTS OF EQUITY**		
(a)	Land and building revaluation reserve	**534**	533
(b)	Foreign currency translation reserve	**139**	74
(c)	Revaluation of available-for-sale investments	**11**	11
(d)	Non-distributable reserve	**4**	11
(e)	Fair value adjustment for preference shares issued by MMI Holdings Ltd	**940**	940
(f)	Equity-settled share-based payment arrangements	**3**	3
		1 631	1 572
	Movements in other reserves		
(a)	**Land and building revaluation reserve**		
	Balance at beginning	**533**	491
	Earnings directly attributable to other components of equity	**12**	53
	Revaluation	**9**	63
	Deferred tax on revaluation	**3**	(10)
	Transferred to retained earnings	**(11)**	(11)
	Balance at end	**534**	533
(b)	**Foreign currency translation reserve**		
	Balance at beginning	**74**	11
	Currency translation differences	**65**	63
	Balance at end	**139**	74
(c)	**Revaluation of available-for-sale investments**		
	Balance at beginning	**11**	15
	Fair value gain – gross	**2**	(1)
	Gains transferred to net realised gains	**(2)**	(2)
	Deferred tax on realisation	**–**	(1)
	Balance at end	**11**	11
(d)	**Non-distributable reserve**		
	Balance at beginning	**11**	9
	Transfer from retained earnings	**3**	1
	Other	**(10)**	1
	Balance at end	**4**	11
(e)	**Fair value adjustment for preference shares issued by MMI**		
	Equity component of preference shares issued	**940**	940
	This represents the write-up of the carrying value of the preference shares issued by MMI Holdings Ltd to Kagiso Tiso Holdings to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.		
(f)	**Equity-settled share-based payment arrangements**		
	BEE share-based payment	**3**	3

14 OTHER COMPONENTS OF EQUITY continued

(f) Equity-settled share-based payment arrangements continued

Pinnacle Business Investments (Pinnacle), a broad-based black economic empowerment (B-BBEE) partner, held 18% of the ordinary shares in Metropolitan Namibia (MetNam) with a loan balance of R13 million due to the group. In December 2011, the group amended this structure with a share buy-back of R63 million from Pinnacle. The loan balance was settled. After the amendments, a special purpose entity (SPE) (incorporated by MetNam and Pinnacle) owned by Pinnacle held 3.1 million shares (19.35%) in MetNam. Subsequent to further shares having been issued by MetNam, this has been diluted to 9.59% (2012: 12.82%). MetNam acquired preference shares in the SPE for R80 million (initial fair value of R100 million). The MetNam shares are security for the preference share investment and for accounting purposes this is seen as an option to the SPE to buy MetNam shares at a future date. The transaction will be settled in MetNam shares and is therefore equity-settled in terms of IFRS 2 – Share-based payments. The option was valued at R3 million (after tax) which represents the cost of the BEE transaction. This cost was expensed in the income statement in the prior year as there are no services to be rendered by the B-BBEE partner over the duration of the contract. In terms of SIC 12 – Consolidation – Special Purpose Entities – the SPE is consolidated even though the group does not own the majority of the shares or voting rights.

	2013 Rm	2012 Rm
15 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by MMIGL		
Balance at beginning	**500**	500
Total comprehensive income	**32**	31
Dividend paid	**(32)**	(31)
Share buy-back	**(500)**	–
Balance at end	**–**	500

These preference shares were held by FirstRand Ltd in the prior year. The shares were acquired by MMI Holdings Ltd from FirstRand Ltd in March 2013 for R388 million. These shares have therefore been eliminated at a group level and the difference between the carrying value and the purchase price, being R112 million, has been recognised in equity. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate.

	2013 Rm	2012 Rm
16 INSURANCE CONTRACTS		
Long-term insurance contracts – gross	**96 806**	88 115
Less: recovery from reinsurers (note 8)	**(1 519)**	(1 439)
Long-term insurance contracts – net	**95 287**	86 676
Long-term insurance contracts – gross	**96 806**	88 115
Capitation contracts	**11**	1
Total – gross	**96 817**	88 116
Open-ended	**9 358**	6 236
Current	**11 730**	10 760
Non-current	**75 729**	71 120
	96 817	88 116
Movement in long-term insurance contract liabilities		
Balance at beginning	**88 115**	82 833
Business combinations	**–**	965
Transfer to policyholder liabilities under insurance contracts	**8 525**	4 277
Increase in retrospective liabilities	**7 954**	4 146
Unwind of discount rate	**2 515**	1 949
Expected release of margins	**(2 280)**	(1 867)
Expected cash flows	**(3 964)**	(3 866)
Change in economic assumptions	**220**	2 294
Change in non-economic assumptions	**343**	(230)
New business	**3 143**	1 457
Experience variances	**594**	394
Revaluation liability	**(12)**	4
Net exchange differences	**148**	36
Other	**30**	–
Balance at end	**96 806**	88 115

		2013 Rm	2012 Rm
17	**INVESTMENT CONTRACTS**		
	Investment contracts with DPF	**24 937**	23 696
	Investment contracts designated at fair value through income	**158 569**	133 233
	Total investment contract liability	**183 506**	156 929
	Movement in investment contracts with DPF		
	Balance at beginning	**23 696**	24 280
	Business combinations	**–**	106
	Transfer to/(from) policyholder liabilities under investment contracts with DPF	**1 237**	(694)
	Increase/(decrease) in retrospective liabilities	**1 326**	(10)
	Unwind of discount rate	**7**	(9)
	Expected release of margins	**(235)**	(57)
	Expected cash flows	**(641)**	(633)
	Change in economic assumptions	**(3)**	70
	Change in non-economic assumptions	**(102)**	135
	New business	**882**	270
	Experience variances	**3**	(460)
	Revaluation liability	**2**	3
	Net exchange differences	**2**	1
	Balance at end	**24 937**	23 696
	Open-ended	**17 742**	16 441
	Current	**1 546**	1 552
	Non-current	**5 649**	5 703
		24 937	23 696
	Movement in investment contracts designated at fair value through income		
	Balance at beginning	**133 233**	121 765
	Business combinations	**–**	67
	Contract holder movements	**25 336**	11 401
	Deposits received	**33 756**	26 703
	Contract benefit payments	**(29 181)**	(25 992)
	Fees on investment contracts	**(1 856)**	(1 404)
	Foreign exchange movement	**3**	2
	Fair value adjustment to policyholder liabilities under investment contracts	**22 614**	12 092
	Balance at end	**158 569**	133 233
	Open-ended	**82 786**	68 898
	Current	**8 943**	7 155
	Non-current	**66 840**	57 180
		158 569	133 233

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the actuarial guidance note SAP 104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on page 138 to 141.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied as required by the Long-term Insurance Act, 52 of 1998 (the act), and board notice 14 of 2010 issued in terms of the act, as well as SAP 104.
- Discretionary margins may be applied as required by the valuation methodology, or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts. While investment returns on certain explicit discretionary margin reserves were retained in the past, expected investment returns of R128 million (2012: R146 million) on the statutory basis after tax (R153 million (2012: R182 million) on the published basis after tax) have been released to earnings in the 12 months ended 30 June 2013, in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

The excess at 30 June 2013 would have been R11 378 million (2012: R9 974 million) higher for the group without the discretionary margins.

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 2012 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Annual mortality investigations are carried out, with the most recent investigation being in respect of the period to December 2012 for MMIGL retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation for the period 2008 to 2012, completed in May 2013 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on the PA 90 standard mortality tables, adjusted for experience, less two years in age. The most recent investigation was completed in May 2013. The Momentum Retail annuitant mortality basis is derived from the RMV 90 standard mortality tables, adjusted for experience. The most recent investigations for Momentum Retail and Momentum Employee Benefits were in respect of the period to December 2012.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations are done regularly, the most recent being in respect of the period ended December 2012.
- 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.
- 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 South African circumstances by applying the following percentages of the base rates (the years represent duration of disability):

  Year 1: +45%
  Year 2: +85%
  Year 3: +135%

18 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.
- Lapse investigations are performed at least annually in respect of grouped individual business and other individual business, the most recent being in respect of the period ended December 2012 for MMIGL retail businesses.
- Surrender investigations are performed at least annually, the most recent being in respect of the period ended December 2012 for MMIGL retail businesses.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

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

- The budgeted expense for the following year is taken as an appropriate expense base.
- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2014 financial year and allows for escalation at the assumed expense inflation rate of 6.1% (2012: 5.8%). An additional 1% is assumed in respect of Momentum Retail to reflect the impact of the run-off of the closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- For non-profit annuity business, yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- For Metropolitan Retail guaranteed endowment business, the discount rates used are the yields to maturity of the assets backing each policy.
- For other business, a single gilt rate from the government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest 10 basis points.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate + 3.5% (2012: + 3.5%)
  - Property rate: gilt rate + 1.0% (2012: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2012: + 0.5%)
  - Cash rate: gilt rate – 1.0% (2012: – 1.0%)
- An inflation rate of 6.1% p.a. for ZAR-denominated business was used to project future renewal expenses (2012: 5.8% p.a.). This inflation rate was derived by deducting the 10-year real return on CPI-linked government bonds of 1.8% (2012: 2.1%) from the risk-free rate. A smoothing methodology was then applied to the resultant rate in order to determine the valuation assumption. The purpose of the smoothing is to limit the volatility of this assumption while nevertheless following market trends.
- A rate of 7.1% p.a. (2012: 6.8% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2012: 1.0% p.a.) (rounding to the nearest 0.1%).
- The main best-estimate assumptions, gross of tax, used in the valuation are:

	2013	2012
Risk discount rate	**10.2%**	10.1%
Gilt rate – risk-free investment return	**7.9%**	7.8%
Assumed investment return for individual smoothed bonus business	**10.1%**	10.0%
Renewal expense inflation base rate	**6.1%**	5.8%

- The renewal expense inflation assumption is set with reference to the real yield curve considering a moving average from one to three years. This approach is taken with the objective of setting a long-term assumption and to avoid any unnecessary fluctuations in the assumption.

18 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 have been reduced by an amount that can reasonably be accepted to be recovered through underdistribution of bonuses during the ensuing three years. These amounts were 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. In all cases, the reduction in liabilities is equal to the negative BSA. The assumed bonus rates have been 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 rate used in the valuation assumptions, relative to those declared for 2012, has been communicated to, and accepted by, both management and the respective boards of directors.

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2013. 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
2013	**5.6**	**6.1**	**6.6**	**6.9**	**7.2**	**8.0**	**8.7**	**9.4**	**9.9**	**10.3**	**10.6**	**10.8**
2012	5.4	5.6	5.9	6.3	6.6	7.8	8.3	8.6	8.7	8.8	8.7	8.7

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES continued

The following instruments have been valued by the model:

Instrument	2013 Price (% of nominal)	2013 Volatility	2012 Price (% of nominal)	2012 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.8%**	**23.5%**	10.3%	29.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**2.4%**	**27.9%**	3.7%	32.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.02690 (2012: 1.02180)	**8.9%**	**22.9%**	11.4%	29.5%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**11.0%**	**26.1%**	13.9%	29.0%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**17.9%**	**24.4%**	22.3%	28.1%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.23450 (2012: 1.19838)	**18.6%**	**24.2%**	21.6%	28.2%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**4.2%**	**32.7%**	5.2%	31.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**15.3%**	**32.4%**	18.4%	30.9%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.52670 (2012: 3.48783)	**31.2%**	**32.3%**	29.7%	30.6%
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	**9.1%**	**15.2%**	11.8%	16.0%
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	**0.5%**	**N/A**	0.4%	N/A

Tax

- Future tax is allowed for according to current four-fund tax legislation by appropriately reducing the gross valuation interest rate expected to be earned in the future in the various books of business.
- No allowance is made for any assessed losses in the contract holder tax funds.
- Capital gains are assumed to be realised on a six to seven-year rolling basis. Capital gains tax charges are discounted to reflect this.

Basis and other changes

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

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2013 by R495 million (2012: R226 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – negative R284 million (2012: negative R137 million).
  - Experience basis changes – negative R186 million (2012: positive R66 million). The experience basis changes are in respect of withdrawal and expense assumptions and mortality assumptions.
  - Economic assumption changes – negative R26 million (2012: negative R137 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions and the difference between actual and expected investment returns on non-profit business.
  - APN 110 liability movement – Rnil (2012: negative R18 million).
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation and investment over- or underperformance in respect of non-linked business is included under this heading.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES continued

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, one 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 in all future years, and not only in one given time period.

2013	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)	**59 054**	**58 210**	**58 393**	**59 251**	**57 703**	**59 301**
Annuities (retail and employee benefits)	**33 648**	**33 526**	**33 574**	**33 646**	**33 959**	**35 359**
Employee benefits business (excluding annuities)	**4 115**	**4 105**	**4 105**	**4 105**	**4 129**	**4 168**
Investment with DPF business	**24 937**	**24 914**	**24 924**	**24 944**	**24 937**	**24 984**
Investment business	**158 569**	**158 569**	**158 565**	**158 575**	**158 569**	**159 279**
Total	**280 323**	**279 324**	**279 561**	**280 521**	**279 297**	**283 091**
2012						
Insurance business						
Retail insurance business (excluding annuities)	53 555	52 781	52 952	53 682	52 417	53 494
Annuities (retail and employee benefits)	31 815	31 748	31 563	31 820	31 835	33 811
Employee benefits business (excluding annuities)	2 746	2 745	2 745	2 745	2 769	2 805
Investment with DPF business	23 696	23 669	23 682	23 705	23 696	23 739
Investment business	133 233	133 224	133 229	133 240	133 233	133 402
Total	245 045	244 167	244 171	245 192	243 950	247 251

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

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

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

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2012: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R190 million (2012: R112 million) in the before-tax earnings of the group.

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES continued

Sensitivity analysis continued

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

19 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME

	2013 Rm	2012 Rm
Collective investment scheme liabilities	**9 661**	6 743
Subordinated call notes	**1 051**	1 062
Carry positions	**7 649**	7 441
	18 361	15 246
Current	**13 327**	10 561
Non-current	**5 034**	4 685
	18 361	15 246

- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the Financial Services Board (FSB) granted approval for MMIGL to raise debt in 2006. MMIGL issued R1 040 million of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by MMIGL from 15 September 2015. The notes were issued at a spread of 70 basis points over the R157 government bond yield. Fitch Ratings assigned a rating of A(zaf) to the subordinated debt on 12 November 2010.
  The coupon rate is fixed at 8.5% per annum, payable biannually on 15 March and 15 September, until the first call date (15 September 2015). At the first call date, a step-up of 80% of the initial credit spread will apply and interest will convert from fixed to floating, payable quarterly on 15 March, 15 June, 15 September and 15 December. MMIGL has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby MMIGL earns interest at the same fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair-valued.
  MMIGL has sufficient cash to cover the debt.
- Carry positions (secured) – R3 742 million (2012: R4 542 million) relates to a carry position with Rand Merchant Bank that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R3 784 million (2012: R4 724 million).
- Carry positions (secured) – R2 150 million (2012: R2 824 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R2 198 million (2012: R2 785 million).
- The collective investment scheme liabilities and the carry position liabilities are backed by specific assets of which the carrying values are not impacted by the group's own credit risk.

20 FINANCIAL LIABILITIES AT AMORTISED COST

	2013 Rm	2012 Rm
Borrowings		
Cumulative redeemable convertible preference shares	**313**	316
Subordinated redeemable debt	**511**	511
Finance lease liabilities	**3**	3
Other	**419**	24
	1 246	854
Current	**425**	4
Non-current	**821**	850
	1 246	854

20 FINANCIAL LIABILITIES AT AMORTISED COST continued

20.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, issued two tranches of variable rate cumulative convertible redeemable preference shares to Kagiso Tiso Holdings (KTH), the group's strategic BEE partner. The first tranche (A1) of 75 842 650 shares, at a nominal value of R540 million, was issued during 2004 and the second tranche (A2 and A3) of 47 081 139 shares, at a nominal value of R479 million, was issued during 2005. The A1 and A2 preference shares were convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redeemable dates of 30 October 2012 (A1) and 5 December 2012 (A2). Dividends were payable semi-annually in arrears on 31 March and 30 September each year. 22 842 650 A1 preference shares were converted into ordinary shares on 17 September 2009. On 22 June 2012 and 29 June 2012, KTH converted the remaining A1 and A2 preference shares into ordinary shares.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redeemable date of 29 June 2017. Dividends were payable semi-annually in arrears on 31 March and 30 September each year. The preference rate payable remained unchanged up to 29 June 2012. With effect from 30 June 2012 an annual dividend of 132 cents per share will be paid. The group took over as a funder for the duration of this extension by acquiring preference shares in a KTH subsidiary – R313 million (2012: R316 million) (refer to note 7). The extension has been accounted for as a renegotiation of the original agreement and not as a settlement as the effect of the change was not significant. There was also no IFRS 2 cost resulting from this extension.

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

20.2 Subordinated redeemable debt

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

With the amalgamation of the licences, the debt is now issued by MMIGL. MMIGL has sufficient cash to cover the debt.

20.3 Other

Included in other financial liabilities at amortised cost is a R375 million loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at the prime rate minus 1%. The loan is secured by the underlying property and is to be repaid by February 2014.

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
21.1 Employee benefit assets						
2013						
Present value of funded obligation	(3)	(2)	–	(458)	(2)	(465)
Fair value of plan assets	7	205	112	229	13	566
	4	203	112	(229)	11	101
Applied limit	(3)	–	–	(75)	–	(78)
Net asset/(liabilities) recognised	1	203	112	(304)	11	23
MSPF liability transferred to note 21.2	–	–	–	304	–	304
Net asset recognised	1	203	112	–	11	327

		SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued**						
21.1	**Employee benefit assets continued**						
	Movement in present value of funded obligation						
	Balance at beginning	**4**	**53**	**–**	**455**	**10**	**522**
	Current service costs	**–**	**–**	**–**	**1**	**–**	**1**
	Interest costs	**–**	**5**	**–**	**38**	**1**	**44**
	Actuarial gains	**–**	**(4)**	**–**	**(5)**	**–**	**(9)**
	Estimated benefits paid	**(1)**	**(52)**	**–**	**(32)**	**(9)**	**(94)**
	Estimated member contributions	**–**	**–**	**–**	**1**	**–**	**1**
	Balance at end	**3**	**2**	**–**	**458**	**2**	**465**
	Current						**32**
	Non-current						**433**
							465
	Movement in fair value of plan assets						
	Balance at beginning	**8**	**244**	**102**	**206**	**17**	**577**
	Expected return on plan assets	**–**	**13**	**8**	**33**	**2**	**56**
	Actuarial gains/(losses)	**–**	**–**	**10**	**(12)**	**–**	**(2)**
	Employer contributions	**–**	**–**	**(8)**	**1**	**(2)**	**(9)**
	Estimated member contributions	**–**	**–**	**–**	**1**	**–**	**1**
	Estimated benefits paid	**(1)**	**(52)**	**–**	**–**	**(7)**	**(60)**
	Transfers	**–**	**–**	**–**	**–**	**3**	**3**
	Balance at end	**7**	**205**	**112**	**229**	**13**	**566**
	Current						**60**
	Non-current						**506**
							566

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
2012						
Present value of funded obligation	(4)	(53)	–	(455)	(10)	(522)
Fair value of plan assets	8	244	102	206	17	577
	4	191	102	(249)	7	55
Applied limit	(2)	–	–	(74)	–	(76)
Net asset/(liabilities) recognised	2	191	102	(323)	7	(21)
MSPF liability transferred to note 20.2	–	–	–	323	–	323
Net asset recognised	2	191	102	–	7	302
Movement in present value of funded obligation						
Balance at beginning	7	393	–	460	9	869
Current service costs	–	–	–	1	–	1
Interest costs	–	33	–	38	1	72
Actuarial losses/(gains)	(1)	(42)	–	(14)	1	(56)
Estimated benefits paid	(2)	(331)	–	(31)	(1)	(365)
Estimated member contributions	–	–	–	1	–	1
Balance at end	4	53	–	455	10	522
Current						32
Non-current						490
						522

		SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued**						
21.1	**Employee benefit assets continued**						
	Movement in fair value of plan assets						
	Balance at beginning	56	546	91	644	20	1 357
	Derecognition of pension fund asset	–	–	–	(450)	–	(450)
	Expected return on plan assets	1	44	8	34	2	89
	Actuarial (losses)/gains	(47)	(15)	2	(4)	(2)	(66)
	Employer contributions	–	–	1	(4)	(2)	(5)
	Estimated member contributions	–	–	–	1	–	1
	Estimated benefits paid	(2)	(331)	–	(15)	(1)	(349)
	Balance at end	8	244	102	206	17	577
	Current						32
	Non-current						545
							577

Momentum Staff Pension Funds

All full-time employees in the ex-Momentum group (MMIGL and its subsidiaries before the merger with Metropolitan) are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Southern Staff Pension Fund (SSPF), Sage Group Pension Fund (SGPF) and Momentum Life Pension Fund (MLPF) (which is included in Other above) are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of these funds were as at 30 June 2013, and all three funds were found to be in a sound financial position. The recommended employer contribution rate to the MLPF is 10% of pensionable salaries in order to meet the ongoing accrual of benefits.

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

The key valuation assumptions for the Momentum SPFs are:

Assumptions	Base assumption
Discount rate	**8.6% – 8.7%** (2012: 8.6% – 8.7%)
Expected rate of return on plan assets	**5.5% – 8.6%** (2012: 5.5% – 8.6%)
Salary inflation rate	**6.3% – 6.5%** (2012: 6.3% – 6.5%)
Net post-retirement interest rate	**2.1%** (2012: 2.1%)
Normal retirement age	**60 – 65 years**
Mortality	
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up by 10 years

Metropolitan Staff Retirement Fund (MSRF)

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued

21.1 Employee benefit assets continued

Metropolitan Staff Pension Fund (MSPF)

With effect from 1 April 1999, the majority of employees converted their retirement benefit plans from defined benefit to defined contribution by way of a transfer from the MSPF to the MSRF. The defined benefit scheme was closed to new members from 1 April 1999. All new employees automatically become members of the MSRF. Metropolitan Life Ltd is required to meet the balance of the cost of providing the fund benefits as recommended by the valuator on the basis of the ongoing triennial statutory actuarial valuations. A nil return was noted by the FSB in October 2005. Subsequent to the surplus apportionment date (1 April 2002), a surplus has emerged in the fund. The liability at 30 June 2013 is based on a projection of the 1 April 2012 valuation results. Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2013. A limit was applied to the net plan assets in terms of IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

During the prior year, the MSPF purchased a with-profit annuity product underwritten by Metropolitan Life Ltd, now MMIGL after the amalgamation of licences, for R450 million in order to provide a better match for the pensioner liabilities, which remain part of the liabilities of the MSPF. Essentially, this was an investment decision made by the trustees of the MSPF to manage a portion of the assets of the MSPF using the dynamic hedging methodology offered by the with-profit annuity product. However, in terms of IFRS, such policies do not meet the definition of plan assets and essentially the risk has effectively been passed back to MMIGL for the funding of the liability to this amount, even though the pensioners remain part of the liabilities of the MSPF. This is because MMIGL has underwritten a policy for the entities' own pension obligations. Such policies are eliminated if within the same entity and therefore the insurance policy asset (within the MSPF) has been eliminated against the insurance policy liability (within MMIGL). As a result, the net liability to MSPF has been increased but this is supported by assets held to fund this obligation which are disclosed elsewhere in the statement of financial position.

In terms of the funding, as at 30 June, the following asset classes are included in the with-profit annuity product investment portfolio which supports the obligations under the insurance policy:

Asset class	2013 %	2012 %
Local equities	**28**	29
Local bonds	**53**	54
Local property	**5**	5
Foreign assets	**7**	7
Local cash	**7**	3
Socially responsible investments	**–**	2
	100	100

MMI Group Retirement Scheme (MGRS)

With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the above funds converted to the MGRS.

The key valuation assumptions for the MSRF and MSPF are:

Assumptions	Base assumption
Valuation rate of interest	**9%** (2012: 9%)
Expected rate of return	**9%** – based on the valuation rate of interest (2012: 9%)
Salary inflation rate	**7%** (2012: 7%)
Net post-retirement interest rate	**3%** (2012: 3%)
Normal retirement age	**60 – 65 years**
Mortality	
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued

21.1 Employee benefit assets continued

The assets of these schemes are held in separately administered funds and are broken down as follows:

The plan assets as a percentage (%) comprise:	MLPF	SSPF	SGPF	MSRF	MSPF
2013					
Equity securities	**–**	**–**	**–**	**42**	**33**
Debt securities	**–**	**–**	**–**	**16**	**43**
Property	**–**	**–**	**–**	**12**	**7**
Foreign assets	**–**	**–**	**–**	**26**	**9**
Cash and cash equivalents	**100**	**100**	**100**	**4**	**6**
Socially responsible investments	**–**	**–**	**–**	**–**	**2**
	100	**100**	**100**	**100**	**100**
2012					
Equity securities	–	–	–	48	33
Debt securities	–	–	–	13	43
Property	–	–	–	11	7
Foreign assets	–	–	–	19	9
Cash and cash equivalents	100	100	100	8	5
Insurance policy	–	–	–	1	–
Socially responsible investments	–	–	–	–	3
	100	100	100	100	100

Actual return on assets

The actual return on assets of the funds is 3% (2012: 5%) for the group, which amounts to R83 million (2012: R135 million).

Previous years' balances	2011 Rm	2010 Rm	2009 Rm
Present value of funded obligations	869	995	931
Present value of plan assets	1 357	1 110	1 014
Recognised surplus in fund	381	113	83
Experience losses/(gains) on funded obligations	87	33	(58)
Experience gains/(losses) on plan assets	200	49	(86)

Other

The total movement of R16 million (2012: R26 million) is recognised in the income statement in employee benefit costs (refer to note 32). The best estimate of the employer's contributions for 2014 is R4 million for the group.

21.2 Employee benefit obligations

	2013 Rm	2012 Rm
(a) Post-retirement medical benefits	**279**	288
(b) Share scheme obligations	**13**	13
(c) Leave pay liability	**216**	204
(d) Staff and management bonuses	**148**	58
(e) Cash-settled arrangements	**368**	320
	1 024	883
MSPF liability transferred from note 21.1	**304**	323
Total employee benefit obligations	**1 328**	1 206
Current	**356**	165
Non-current	**972**	1 041
	1 328	1 206

		2013 Rm	2012 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued**		
21.2	**Employee benefit obligations continued**		
	Employee benefit expenses are included in the income statement.		
(a)	**Post-retirement medical benefits**		
	Balance at beginning – unfunded	**288**	279
	Current service costs	**3**	2
	Interest costs	**24**	23
	Actuarial gains	**(13)**	–
	Estimated employer contributions	**(17)**	(12)
	Benefits paid	**(6)**	(4)
	Balance at end – unfunded	**279**	288

Previous years' balances	2011 Rm	2010 Rm	2009 Rm
Post-retirement medical benefit obligation	279	74	85

Valuation methodology

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

The key valuation assumptions are:

			Change in value of liability	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Healthcare cost inflation rate				
Defined benefit fund	**8%** (2012: 8%)	1%	(11)	13
Defined contribution fund	**8%** (2012: 8%)	1%	(20)	25
Valuation rate of interest/discount rate	**9%** (2012: 9%)			
Administration fee inflation	**6%** (2012: 6%)			
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			

		2013 Rm	2012 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued**		
21.2	**Employee benefit obligations continued**		
(b)	**Share scheme obligations**		
	Metropolitan International subsidiaries' share schemes	**4**	4
	MMIGL share schemes	**9**	9
		13	13
	Metropolitan International subsidiaries' share schemes		
	Balance at beginning	**4**	3
	Current service costs	**2**	2
	Benefits paid	**(2)**	(1)
	Balance at end	**4**	4

The group assumed a liability in respect of its obligation to purchase shares in certain international subsidiaries from employees of those companies. The liability is measured with reference to the applicable embedded value that will be used to repurchase the shares.

The assumptions used in calculating the expenses and liabilities for these schemes were:

- risk-free rates ranging from 7.8% to 8.3% (2012: 7.8% to 8.3%)
- expected growth rates between 8.8% and 10.8% (2012: 9.8% and 10.5%)
- forfeiture rates ranging from 1.7% to 16.6% (2012: 1.0% to 16.6%)
- a continuously compounded dividend yield of 0% (2012: 0%)

	2013 Rm	2012 Rm
MMIGL share schemes		
These are schemes in the ex-Momentum group still linked to FirstRand Ltd shares		
Balance at beginning	**9**	48
Benefits paid	**–**	(39)
Balance at end	**9**	9
(c) Leave pay liability		
Balance at beginning	**204**	191
Business combinations	**5**	2
Provisions for current year	**28**	36
Paid during year	**(21)**	(25)
Balance at end	**216**	204
(d) Staff and management bonuses		
Balance at beginning	**58**	147
Business combinations	**21**	–
Provisions for current year	**210**	121
Paid during year	**(130)**	(210)
Reversal of prior year provision	**(11)**	–
Balance at end	**148**	58

		2013 Rm	2012 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued**		
21.2	**Employee benefit obligations continued**		
(e)	**Cash-settled arrangements**		
	Retention and remuneration schemes		
	Balance at beginning	**320**	206
	Additional provisions	**264**	190
	Benefits paid	**(216)**	(76)
	Balance at end	**368**	320
	Current	**179**	178
	Non-current	**189**	142
		368	320

Momentum share schemes

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

Momentum Sales Scheme (MSS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations are made twice a year to financial planners reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares. When the shares vest, the group will make a cash payment to a third party who will purchase MMI Holdings Ltd shares on behalf of the employee. No shares are issued by the group and therefore the scheme remains cash-settled.

Momentum Conditional Share Plan (MomCSP)

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

Certain ex-Momentum employees had awards relating to FirstRand schemes. The CSP allowed the group to make conditional awards to these employees in substitution for their rights under the FirstRand schemes, in order to retain their services and to encourage them to build up a shareholding in the group and thus increase the alignment of their interests with the interests of the other shareholders of MMI Holdings Ltd. The scheme is cash-settled and no MMI Holdings Ltd shares will be issued in settlement of this obligation.

Metropolitan share schemes

As a result of the merger between Metropolitan and Momentum, the group acquired the obligations under the ex-Metropolitan group cash-settled schemes.

Metropolitan Long-term Replacement Scheme (MetLTRS)

This scheme is for all participants of the former Metropolitan Long-term Incentive Scheme (MetLTIS) who concluded an agreement with MMI Holdings Ltd not to receive an accelerated payment under that scheme on the merger of Metropolitan and Momentum but rather to form part of the MetLTRS scheme. The MetLTRS replaced the awards made to the relevant employees in 2008 (third tranche) and 2009 (fourth tranche) in terms of the MetLTIS. The units outstanding in the MetLTRS therefore represent the third (redeemed December 2011) and fourth tranche (redeemed December 2012) units of the participants who agreed to be part of the MetLTRS – refer below.

MMI share schemes

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

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

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

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

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

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued

21.1 Employee benefit obligations continued

(e) Cash-settled arrangements continued

MMI share schemes continued

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

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

MSS	2013 '000	2012 '000
Options in force at 1 July (thousands)	**10 754**	5 665
Granted at prices ranging from (cents)	**1 306 – 1 903**	1 306 – 1 666
Options granted during year (thousands)	**5 597**	5 914
Granted at prices ranging from (cents)	**2 100 – 2 256**	1 699 – 1 903
Options exercised/released during year (thousands)	**(573)**	–
Market value of range at date of exercise/release	**2 100 – 2 256**	–
Options cancelled/lapsed during year (thousands)	**(829)**	(825)
Granted at prices ranging from (cents)	**1 306 – 1 903**	1 306 – 1 903
Options in force at 30 June (thousands)	**14 949**	10 754
Granted at prices ranging from (cents)	**1 306 – 2 256**	1 306 – 1 903
Number of participants	**466**	311
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2012/2013	**–**	585
Financial year 2013/2014	**1 255**	1 568
Financial year 2014/2015	**3 343**	3 689
Financial year 2015/2016	**4 529**	2 940
Financial year 2016/2017	**3 874**	1 972
Financial year 2017/2018	**1 918**	–
Financial year 2018/2019	**30**	–
Total outstanding shares	**14 949**	10 754
Valuation assumptions of MSS:		
Share price	**R21.24**	R18.14
Volatility	**10.07% – 11.91%**	6.6% – 13.2%
Dividend yield	**5.17%**	5.71%
Forfeiture rate	**5.00%**	5.00%
Risk-free rate	**7.01% – 8.02%**	4.95% – 6.51%

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued

21.2 Employee benefit obligations continued

(e) Cash-settled arrangements continued

	MomCSP	MetLTRS	MMI LTRAS	MMI LTIP	
				Retention units	Performance units
	'000	'000	'000	'000	'000
Units in force at 1 July 2011 (thousands)	12 700	2 114	9 346	–	–
Units granted during year (thousands)	130	–	–	5 473	7 306
Units exercised/released during year (thousands)	(2 218)	(1 153)	(63)	–	–
Market value of range at date of exercise/release	1 654 – 1 862	2 074	1 749	–	–
Units cancelled/lapsed during year (thousands)	(836)	–	(701)	(146)	(140)
Units in force at 30 June 2012 (thousands)	**9 776**	**961**	**8 582**	**5 327**	**7 166**
Units granted during year (thousands)	**–**	**–**	**–**	**5 177**	**6 909**
Units exercised/released during year (thousands)	**(8 150)**	**(961)**	**(168)**	**(40)**	**(53)**
Market value of range at date of exercise/release	**1 959 – 2 459**	**–**	**1 897 – 2 370**	**1 849 – 2 370**	**1 849 – 2 370**
Units cancelled/lapsed during year (thousands)	**(201)**	**–**	**(381)**	**(665)**	**(694)**
Units in force at 30 June 2013 (thousands)	**1 425**	**–**	**8 033**	**9 799**	**13 328**
Number of participants (2012)	409	98	67	417	417
Number of participants (2013)	**228**	**–**	**63**	**539**	**483**

Units outstanding (by expiry date) for the MomCSP, MetLTRS, MMI LTRAS, and MMI LTIP are as follows:

	MomCSP	MetLTRS	MMI LTRAS	MMI LTIP	
				Retention units	Performance units
2013	'000	'000	'000	'000	'000
Financial year 2013/2014	**1 396**	**–**	**7 789**	**–**	**–**
Financial year 2014/2015	**29**	**–**	**244**	**4 783**	**6 434**
Financial year 2015/2016	**–**	**–**	**–**	**5 016**	**6 894**
Total outstanding shares	**1 425**	**–**	**8 033**	**9 799**	**13 328**

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS continued

21.2 Employee benefit obligations continued

(e) Cash-settled arrangements continued

Value assumptions relating to outstanding units at 30 June	MomCSP		MMI LTRAS		MMI LTIP					
						Retention units			Performance units	
	4th tranche	5th tranche	1st tranche	2nd tranche	1st tranche	2nd tranche	3rd tranche	1st tranche	2nd tranche	3rd tranche
2013										
Award date	03-Nov-08	03-Nov-08	01-Jan-11	01-Jan-11	01-Oct-11	01-Nov-12	02-Apr-13	01-Oct-11	01-Nov-12	02-Apr-13
Vesting date	03-Nov-13	03-Nov-14	01-Dec-13	01-Dec-14	01-Oct-14	01-Nov-15	02-Apr-16	01-Oct-14	01-Nov-15	02-Apr-16
Outstanding units (thousands)	1 396	29	7 789	244	4 783	4 952	64	6 434	6 808	86
Valuation assumptions include:										
Outstanding tranche period in years	0.40	1.40	0.60	1.60	1.30	2.30	2.90	1.30	2.30	2.90
Take-up rate on units outstanding	100%	100%	94%	88%	94%	88%	82%	94%	88%	82%
Current vesting rate	94%	88%	100%	100%	100%	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R22.18	R21.10	R22.21	R21.10	R20.82	R22.17	R22.17	R20.82	R22.17	R22.17

	MomCSP				MetLTRS	MMI LTRAS		MMI LTIP	
								Retention units	Performance units
	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	4th tranche	1st tranche	2nd tranche	1st tranche	1st tranche
2012										
Award date	17-Sep-09	01-Oct-07	03-Nov-08	03-Nov-08	03-Nov-08	01-Dec-09	01-Jan-11	01-Jan-11	01-Oct-11	01-Oct-11
Vesting date	17-Sep-12	01-Oct-12	03-Nov-12	03-Nov-13	03-Nov-14	01-Dec-12	01-Dec-13	01-Dec-14	01-Oct-14	01-Oct-14
Outstanding units (thousands)	6 901	110	1 368	1 368	29	961	8 338	244	5 327	7 166
Valuation assumptions include:										
Outstanding tranche period in years	0.30	0.30	0.40	1.40	2.40	0.42	1.60	2.60	2.30	2.30
Take-up rate on units outstanding	100%	100%	100%	100%	100%	98%	100%	100%	100%	100%
Current vesting rate	94%	94%	94%	100%	100%	200%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R18.00	R18.00	R18.00	R18.00	R18.00	R16.71	R18.00	R18.00	R20.82	R20.82

Tranches vested during the current or prior year

MomCSP: The first, second and third tranches of the MomCSP were settled in September, October and November 2012 respectively at R18.00 per share totalling R161 million.

MetLTRS: The third tranche of the MetLTRS was settled in December 2011 at R16.72 per share at a 200% vesting rate totalling R35 million.

MetLTRS: The fourth tranche of the MetLTRS was settled in December 2012 at R20.74 per share at a 200% vesting rate totalling R41 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R264 million (2012: R190 million) for the group and is disclosed under employee benefit expenses in note 32.

		2013 Rm	2012 Rm
22	**OTHER PAYABLES**		
	Payables arising from insurance contracts and investment contracts with DPF	**3 308**	5 188
	Claims in process of settlement		
	Insurance contracts	**1 703**	2 157
	Investment contracts with DPF	**240**	402
	Premiums paid in advance	**1 192**	2 460
	Due to reinsurers	**173**	169
	Payables arising from investment contracts	**945**	714
	Deferred revenue liability	**257**	238
	Financial instruments	**6 602**	3 377
	Scrip lending collateral payable	**2 532**	108
	Unsettled trades	**1 181**	548
	Other payables	**2 889**	2 721
		11 112	9 517
	Current	**9 551**	8 456
	Non-current	**1 561**	1 061
		11 112	9 517
	Reconciliation of deferred revenue liability		
	Balance at beginning of year	**238**	232
	Deferred income relating to new business	**84**	71
	Amount recognised in income statement	**(65)**	(65)
	Balance at end of year	**257**	238
23	**PROVISIONS**		
	Balance at beginning of year	**153**	109
	Additional provisions	**304**	275
	Business combinations (refer to note 38)	**26**	–
	Utilisation of provisions	**(268)**	(222)
	Unutilised amounts reversed	**(35)**	(9)
	Balance at end of year	**180**	153
	Current	**105**	152
	Non-current	**75**	1
		180	153
	The provisions relate to individually small items with no single significant amount.		
24	**NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE**		
	Non-current assets held for sale		
	Balance at beginning of year	**865**	53
	Transferred (to)/from investment properties during the year (refer to note 4)	**(185)**	812
	Balance at end of year	**680**	865

The non-current assets held for sale balance relates to investment properties held by Momentum Property Investments (Pty) Ltd (Momentum Investments segment). Properties to the value of R185 million were transferred to investment properties in the current year as they will no longer be sold.

		2013 Rm	2012 Rm
25	**INCOME TAX**		
25.1	**Current income tax (assets)/liabilities**		
	Current income tax assets	**(108)**	(69)
	Current income tax liabilities	**267**	311
		159	242
	Balance at beginning	**242**	(136)
	Charged to income statement	**1 602**	1 427
	Additional provisions	**1 696**	1 423
	(Unused amounts reversed)/additional prior year provisions	**(94)**	4
	Paid during year	**(1 692)**	(1 049)
	Business combinations (refer to note 38)	**5**	1
	Other	**2**	(1)
	Balance at end	**159**	242
25.2	**Income tax (credits)/expenses**		
	Current taxation	**1 602**	1 427
	Shareholder tax		
	South African normal tax – current year	**1 179**	1 160
	South African normal tax – prior year	**(85)**	4
	Foreign countries – normal tax	**51**	48
	Foreign withholding tax	**24**	11
	Secondary tax on companies	**–**	144
	Contract holder tax		
	Tax on contract holder funds – current year	**301**	60
	Tax on contract holder funds – prior year	**132**	–
	Deferred tax	**(100)**	(123)
	Shareholder tax		
	South African normal tax – current year	**(193)**	(333)
	South African normal tax – prior year	**(3)**	2
	Foreign countries – normal tax	**(2)**	4
	Foreign withholding tax	**1**	–
	Tax on contract holder funds – current year	**164**	202
	Tax on contract holder funds – prior year	**(67)**	2
		1 502	1 304

Tax rate reconciliation	2013 %	2012 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Change in tax rate	**–**	1.7
Prior year adjustments	**(2.1)**	0.1
Secondary tax on companies	**–**	4.0
Taxation on contract holder funds	**12.8**	7.2
Foreign tax differential	**(0.8)**	1.0
Capital gains tax	**(1.3)**	(1.3)
Non-taxable income	**(2.4)**	(9.1)
Non-deductible expenses	**1.2**	1.3
Tax losses for which no deferred tax asset was recognised	**0.6**	2.9
Other	**0.1**	0.1
Effective rate	**36.1**	35.9

		2013 Rm	2012 Rm
26	**NET INSURANCE PREMIUMS**		
	Premiums received	**26 436**	21 444
	Long-term insurance contracts	**22 305**	18 293
	Health premiums	**577**	340
	Investment contracts with DPF	**3 204**	2 764
	Short-term insurance	**350**	47
	Premiums received ceded to reinsurers	**(3 132)**	(2 750)
		23 304	18 694
27	**FEE INCOME**		
	Contract administration	**1 901**	1 455
	Investment contract administration	**1 836**	1 390
	Release of deferred front-end fees	**65**	65
	Trust and fiduciary services	**1 875**	1 546
	Asset management	**600**	796
	Asset administration	**776**	341
	Retirement fund administration	**499**	409
	Health administration	**1 866**	1 799
	Other income	**592**	448
	Administration fees received	**135**	111
	Multiply fee income	**236**	165
	Other	**221**	172
		6 234	5 248

Contract revenue recognised for the year amounts to R105 million and is included in asset administration fees above.

		2013 Rm	Restated 2012 Rm
28	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividend income – listed	**2 072**	2 654
	Dividend income – unlisted	**169**	356
	Interest income	**10 500**	9 338
	Designated at fair value through income	**9 385**	8 098
	Available-for-sale	**46**	103
	Loans and receivables	**221**	235
	Cash and cash equivalents	**844**	902
	Non-financial assets	**4**	–
	Rental income	**796**	744
	Investment properties	**784**	732
	Owner-occupied properties	**12**	12
	Other income	**–**	8
		13 537	13 100

2012 reclassification

Further classification-related alignments within financial assets have been made in the current year. As a result, June 2012 dividend income from unlisted and listed financial assets designated at fair value through income decreased and increased by R251 million respectively.

		2013 Rm	2012 Rm
29	**NET REALISED AND FAIR VALUE GAINS**		
	Financial assets	**28 710**	13 571
	Designated at fair value through income	**29 664**	13 253
	Derivative financial instruments – (losses)/gains	**(994)**	290
	Available-for-sale – realised gains	**2**	1
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	**38**	27
	Financial liabilities		
	Designated at fair value through income	**22**	97
	Investment property	**318**	106
	Valuation gains	**325**	69
	Change in accelerated rental income	**(7)**	37
	Gain on changes from associate to subsidiary	**67**	207
	Other investments	**35**	8
		29 152	13 989
30	**NET INSURANCE BENEFITS AND CLAIMS**		
	Long-term insurance contracts	**16 712**	15 852
	Death and disability claims	**6 297**	6 129
	Maturity claims	**4 418**	3 880
	Annuities	**2 952**	2 692
	Surrenders	**2 625**	2 809
	Terminations and withdrawal benefits	**420**	342
	Health and capitation benefits incurred	**440**	243
	Short-term insurance benefits incurred	**177**	10
	Investment contracts with DPF	**4 544**	4 347
	Death and disability claims	**207**	100
	Maturity claims	**1 072**	438
	Annuities	**49**	49
	Surrenders	**508**	276
	Terminations and withdrawal benefits	**2 708**	3 484
		21 873	20 452
	Amounts recovered from reinsurers	**(1 546)**	(1 476)
		20 327	18 976
31	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES**		
	Depreciation (notes 2 and 3)	**214**	195
	Owner-occupied properties	**40**	32
	Equipment	**174**	163
	Amortisation (note 1)	**899**	744
	Value of in-force business acquired	**327**	291
	Customer relationships	**424**	309
	Metropolitan and other brands	**56**	55
	Broker network	**27**	27
	Computer software	**65**	62
	Impairment of intangible assets (note 1)	**–**	65
	Goodwill	**–**	38
	Customer relationships	**–**	3
	Computer software	**–**	24
	Impairment of property, plant and equipment (note 3)	**1**	–
	Equipment	**1**	–
	Impairment of financial assets	**30**	4
	Loans and receivables	**30**	4
		1 144	1 008

		2013 Rm	2012 Rm
32	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	**3 579**	3 080
	Contributions to medical aid funds	**182**	172
	Defined benefit retirement fund	**2**	6
	Defined contribution retirement fund	**258**	240
	Post-retirement medical benefits	**(3)**	11
	Retirement fund assets (note 21)	**(16)**	(26)
	Share-based payment expenses	**264**	190
	Cash-settled arrangements (note 21.2)	**264**	190
	Current service costs	**2**	2
	International subsidiaries' share schemes	**2**	2
	Training costs	**141**	138
	Other	**85**	61
		4 494	3 874
	For detail of directors' and prescribed officers' emoluments, refer to pages 70 and 71 of the corporate governance report.		
33	**SALES REMUNERATION**		
	Commission incurred for the acquisition of insurance contracts	**2 222**	1 885
	Commission incurred for the acquisition of investment contracts with DPF	**522**	721
	Amortisation of deferred acquisition costs	**224**	218
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	**47**	26
		3 015	2 850
34	**OTHER EXPENSES**		
	Asset management fees	**701**	670
	Auditors' remuneration	**67**	60
	Audit fees	**60**	58
	Fees for other services	**7**	2
	Bad debts written off	**16**	10
	Bank charges	**55**	49
	Consulting fees	**310**	276
	Multiply benefit payments	**183**	155
	Direct property operating expenses on investment property	**466**	294
	Information technology expenses	**438**	397
	Marketing costs	**351**	357
	Office costs	**712**	577
	Operating lease charges	**106**	112
	Other indirect taxes	**155**	187
	Policy services	**34**	39
	Travel expenses	**179**	173
	Other expenses	**476**	355
		4 249	3 711
35	**FINANCE COSTS**		
	Interest expense on financial liabilities		
	Redeemable preference shares	**46**	92
	Subordinated redeemable debt	**46**	46
	Unsecured subordinated call notes	**54**	68
	Cost of carry and interest rate swaps	**1 273**	624
	Other	**265**	69
		1 684	899

		Basic earnings		Diluted earnings	
		2013	2012	2013	2012
36	**GROUP EARNINGS PER ORDINARY SHARE**				
	Attributable to owners of the parent				
	Earnings (cents per share)[1, 2]	**166**	154	**164**	151
	Headline earnings (cents per share)	**162**	145	**160**	142
	Core headline earnings (cents per share)	**205**	192	**202**	184
	Reconciliation of headline earnings attributable to owners of the parent	**2013 Rm**	**2012 Rm**	**2013 Rm**	**2012 Rm**
	Earnings – equity holders of group	**2 587**	2 301	**2 587**	2 301
	Finance costs – preference shares (note 35)			**46**	92
	Dilutory effect of subsidiaries[3]			**(19)**	–
	Diluted earnings			**2 614**	2 393
	Realised gains on available-for-sale financial assets	**(2)**	–	**(2)**	–
	Intangible asset and other impairments	**3**	67	**3**	67
	Profit on change from associate to subsidiary	**(67)**	(207)	**(67)**	(207)
	Loss/(profit) on sale of business	**3**	(3)	**3**	(3)
	Headline earnings[4]	**2 524**	2 158	**2 551**	2 250
	Net realised and fair value gains on excess	**(340)**	(250)	**(340)**	(250)
	Basis and other changes, and investment variances	**367**	292	**367**	292
	Amortisation of intangible assets relating to business combinations	**587**	516	**587**	516
	Secondary tax on companies (STC)	**–**	144	**–**	144
	BEE cost[5]	**–**	3	**–**	3
	Dilutory effect of subsidiaries[3]	**–**	–	**–**	(14)
	Investment income on treasury shares held on behalf of contract holders	**–**	–	**18**	14
	Corporate restructuring expenses[6]	**58**	–	**58**	–
	Core headline earnings as per segmental information[3, 7]	**3 196**	2 863	**3 241**	2 955
	Weighted average number of ordinary shares in issue (million)	**1 558**	1 491	**1 558**	1 491
	Adjustments for				
	Assumed conversion of 100 million preference shares (weighted)			**35**	99
	Diluted weighted average – earnings and headline earnings (million)			**1 593**	1 590
	Treasury shares held on behalf of contract holders			**12**	15
	Diluted weighted average – core headline earnings (million)[8]			**1 605**	1 605
	Impact of weighting			**(1)**	–
	Diluted weighted average – core headline earnings as per segmental information (million)[8]			**1 604**	1 605

1 Basic earnings per share

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

2 Diluted earnings per share

Diluted earnings per share are calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares and the staff share scheme 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.

36 GROUP EARNINGS PER ORDINARY SHARE continued

3 Dilutory effect of subsidiaries

Metropolitan Health is consolidated at 100% and the Metropolitan Namibian group and Metropolitan Kenya are consolidated at 96% in the results. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated. The dilutory impact of these subsidiaries has been included in diluted earnings in the current year.

4 Headline earnings

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

5 BEE cost

This represents the cost of the BEE transaction in Namibia in the prior year in terms of IFRS 2 – Share-based payments. Refer to note 14(f).

6 Corporate restructuring expenses

Corporate restructuring expenses include one-off costs relating to the restructuring of the group.

7 Core headline earnings

Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. They exclude net realised and fair value gains on investment assets, investment variances and basis and other changes which can be volatile, secondary tax on companies, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business. STC has been added back in the prior year as it was replaced by the new dividend withholding tax effective 1 April 2012.

8 Diluted weighted average number of shares

For diluted core headline earnings, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings, these shares are deemed to be treasury shares.

		2013 Rm	2012 Rm
37	**CASH FLOW FROM OPERATING ACTIVITIES**		
37.1	**Cash utilised in operations**		
	Profit before tax	**4 153**	3 641
	Adjusted for		
	Dividends received	**(2 241)**	(3 010)
	Interest received	**(10 500)**	(9 338)
	Finance costs	**1 684**	899
	Share of (profits)/losses of associates	**(12)**	7
	Net realised and fair value gains	**(29 152)**	(13 989)
	Depreciation and amortisation expenses	**1 113**	939
	Impairment charges	**83**	99
	Deferred acquisition costs movement	**224**	(107)
	Share-based payments and other employee benefit expenses	**263**	208
	Staff and management bonus liabilities	**199**	121
	Leave pay liability	**28**	36
	Provisions	**304**	275
	Reinsurance assets	**(74)**	(229)
	Employee benefit assets and obligations	**(90)**	402
	Deferred revenue liability movements	**(65)**	6
	Accelerated rental income	**(7)**	37
	Other non-cash items	**6**	–
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Insurance and investment liabilities	**35 098**	14 988
	Intangible assets related to insurance and investment contracts	**(317)**	–
	Investment properties	**(452)**	(139)
	Properties under development	**169**	–
	Assets designated at fair value through income	**(586)**	4 864
	Investments in associates designated at fair value through income	**(3 091)**	(6 779)
	Loans and receivables	**(291)**	(86)
	Insurance and other receivables	**(204)**	(391)
	Non-current assets held for sale	**–**	47
	Change in employee benefit obligations	**(359)**	(357)
	Other operating liabilities	**1 080**	(3 679)
	Cash utilised in operations	**(3 037)**	(11 535)
37.2	**Income tax paid**		
	Due at beginning	**(4 069)**	(3 798)
	Charged to income statement	**(1 502)**	(1 304)
	Charged directly to other comprehensive income	**3**	(11)
	Other	**3**	–
	Business combinations	**(79)**	1
	Exchange differences	**–**	(6)
	Due at end	**3 952**	4 069
		(1 692)	(1 049)
37.3	**Interest paid**		
	Redeemable preference shares	**(49)**	(99)
	Subordinated redeemable debt	**(46)**	(46)
	Unsecured subordinated call notes	**(54)**	(68)
	Carry and interest rate swaps	**(1 273)**	(624)
	Other	**(265)**	(69)
		(1 687)	(906)

38 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2013

Momentum Short-term Insurance

As at 30 June 2012, MMIGL and OUTsurance Holdings Ltd (OUTsurance) each owned 50% of the ordinary share capital of Momentum Short-term Insurance Company Ltd (MSTI). As OUTsurance controlled MSTI, MMIGL accounted for the investment as an associate.

On 13 July 2012, MMIGL acquired the remaining 50% shareholding for R125 million in cash, which was based on the embedded value of MSTI. No goodwill was recognised on the transaction.

Eris Property Group (Eris)

On 29 October 2012, MMI Holdings Ltd acquired 55% in Eris for R329 million in cash. The group's property portfolio is currently managed by Eris and Momentum Properties. The transaction resulted in R191 million goodwill being recognised attributable to certain anticipated operating synergies. The goodwill is not deductible for tax purposes.

Eris management and Kagiso Tiso Holdings (Pty) Ltd (KTH), who were existing shareholders in Eris, also acquired further shares from MMI Holdings Ltd, resulting in an effective controlling interest for MMI of 54%.

Impact of business combinations

Assuming the acquisitions occurred at the beginning of the year, MSTI and Eris would have contributed additional net income (revenue) of R148 million, and R14 million earnings, to the group for the 12 months ended 30 June 2013.

	Total Rm	MSTI Rm	Eris Rm
Purchase price allocation:			
Fair value of net assets:			
Intangible assets			
Customer relationships	276	158	118
Tangible assets	332	–	332
Property and equipment	2	–	2
Investment properties	63	–	63
Properties under development	267	–	267
Financial instrument assets	353	201	152
Designated at fair value through income	260	201	59
Loans and receivables	93	–	93
Other assets	17	3	14
Investment in associates	5	–	5
Deferred income tax assets	9	2	7
Current income tax assets	3	1	2
Cash and cash equivalents	43	7	36
Financial instrument liabilities	(85)	–	(85)
Other liabilities	(418)	(104)	(314)
Deferred income tax liabilities	(83)	(43)	(40)
Employee benefit obligations	(26)	–	(26)
Other payables	(275)	(61)	(214)
Provisions	(26)	–	(26)
Current income tax liabilities	(8)	–	(8)
Net identifiable assets acquired	518	265	253
Profit on change from associate to subsidiary	(67)	(67)	–
Derecognise investment in associate	(73)	(73)	–
Non-controlling interests	(115)	–	(115)
Goodwill	191	–	191
Purchase consideration in cash	454	125	329
Cash and cash equivalents in subsidiary	43	7	36
Less: purchase consideration in cash	(454)	(125)	(329)
Net cash and cash equivalents paid through business combinations	(411)	(118)	(293)

The net income and earnings of MSTI and Eris included in the group results for the current year are R603 million and R33 million respectively.

38 BUSINESS COMBINATIONS continued

Business combinations for the year ended 30 June 2013 continued

Common control transactions

After consultation with the FSB, the group applied to the High Court of South Africa for the approval of the amalgamation of the two main long-term insurance licences. As a preparatory step for this legal amalgamation of the life insurance licences, Momentum Group Ltd changed its name to MMI Group Ltd (MMIGL). The court approval for the amalgamation was granted on 20 May 2013, and the assets and liabilities of Metropolitan Life Ltd were sold to MMIGL on that date.

The transaction was recorded in accordance with the group's accounting policy for common control transactions. It had no impact on the group results or net asset value.

Business combinations for the year ended 30 June 2012

Acquisition of additional 51% in Momentum Life Assurance Namibia Ltd

On 30 June 2012, the group acquired an additional 51% in the ordinary share capital of Momentum Life Assurance Namibia Ltd. The additional shares were acquired for R343 million in cash and R29 million on loan account.

The carrying value of the investment in Momentum Life Assurance Namibia before the 51% was acquired was R144 million. The fair value gain recognised by the group as a result of remeasuring the 49% equity interest in Momentum Life Assurance Namibia before the business combination was R207 million and is disclosed in net realised and fair value gains/(losses) in the income statement.

Acquisition of Momentum Trust Ltd

In December 2011, the group acquired 100% of Momentum Trust Ltd for R5 million in cash and R3 million on loan account.

Impact of business combinations

Assuming the acquisitions occurred at the beginning of the year, Momentum Life Assurance Namibia would have contributed additional net income (revenue) of R224 million, and negligible earnings, to the group for the 12 months ended 30 June 2012.

	Total Rm	Momentum Trust Rm	Momentum Namibia Rm
Purchase price allocation:			
Fair value of net assets:			
Intangible assets	375	10	365
Value of in-force business	338	–	338
Customer relationships	10	10	–
Brand	27	–	27
Property and equipment	4	–	4
Financial instrument assets	1 314	–	1 314
Insurance and other receivables	10	–	10
Reinsurance contracts	34	–	34
Cash and cash equivalents	191	–	191
Insurance contract liabilities	(965)	–	(965)
Financial instrument liabilities	(177)	–	(177)
Investment contract liabilities	(173)	–	(173)
Other financial instrument liabilities	(4)	–	(4)
Deferred income tax liabilities	(7)	(2)	(5)
Employee benefit obligations	(2)	–	(2)
Other payables	(50)	–	(50)
Current income tax liabilities	(1)	–	(1)
Net identifiable assets acquired	726	8	718
Profit on change from associate to subsidiary	(207)	–	(207)
Derecognise investment in associate	(144)	–	(144)
Negative goodwill	(1)	–	(1)
Paid via loan	(26)	(3)	(23)
Purchase consideration in cash	348	5	343
Cash and cash equivalents in subsidiary	191	–	191
Less: purchase consideration in cash	(348)	(5)	(343)
Net cash and cash equivalents paid through business combinations	(157)	(5)	(152)

		2013 Rm	2012 Rm
39	**CAPITAL AND LEASE COMMITMENTS**		
	Capital commitments		
	Authorised but not contracted	**96**	111
	Authorised and contracted	**683**	444
		779	555
	The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, property, sponsorships, promotions and new business opportunities, will be financed from internal sources. Also refer to note 42 for significant events after the reporting period.		
	Lease commitments		
	The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
	Less than 1 year	**77**	57
	Between 1 and 5 years	**95**	146
		172	203
	The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
	Less than 1 year	**524**	566
	Between 1 and 5 years	**1 111**	1 248
	More than 5 years	**448**	529
		2 083	2 343

40 CONTINGENT LIABILITIES

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

41 RELATED PARTY TRANSACTIONS

41.1 Major shareholders and group companies

MMI Holdings Ltd is the ultimate holding company in the group. By virtue of its shareholding of 24.5% in MMI Holdings Ltd, Rand Merchant Insurance Holdings Ltd has significant influence over the group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile on page 284.

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

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

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

Various collective investment schemes in which the group invests are defined as subsidiaries as the economic ownership is greater than 50%; 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; these are listed in Annexure B.

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

41 RELATED PARTY TRANSACTIONS continued

41.2 Transactions with directors and key management personnel and their families

Remuneration in the form of fees is paid to non-executive directors and remuneration to executive directors and key management personnel of the group. Transactions with directors are disclosed in the corporate governance report on pages 66 and 69 to 70 respectively.

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

	2013 Rm	2012 Rm
Salaries and other short-term employee benefits	**33**	27
Post-employment benefits	**2**	2
Share-based payments	**23**	24
Directors' fees	**19**	21
	77	74

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

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

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

	2013 Insurance Rm	2013 Investment Rm
Fund value (at 30 June 2013)	**N/A**	**248**
Aggregate life and disability cover (at 30 June 2013)	**131**	**N/A**
Deposits/premiums (for 12 months to June 2013)	**–**	**56**
Withdrawals/claims (for 12 months to June 2013)	**–**	**(10)**

	2012 Insurance Rm	2012 Investment Rm
Fund value (at 30 June 2012)	N/A	163
Aggregate life and disability cover (at 30 June 2012)	114	N/A
Deposits/premiums (for 12 months to June 2012)	1	6
Withdrawals/claims (for 12 months to June 2012)	–	(700)

In aggregate, the group earned fees and charges totalling R2 million (2012: R3 million) on the insurance, annuities and investment products set out above.

41.3 Broad-based black economic empowerment partner

The group's broad-based black economic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), has an interest of 7.1% (2012: 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 20.1. The A1 and A2 preference shares were converted into ordinary shares during the prior year.
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares are convertible into ordinary shares on a one-for-one basis and can only be converted as and when the preference shares are redeemed, also on a one-for-one basis. KTH holds a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd through this transaction.
- KTH has a 20% holding in Metropolitan Retirement Administrators (Pty) Ltd (MRA). MRA specialises in the provision of administration services to large retirement funds through the effective use of technology and end-to-end automation.
- KTH has a 51% holding in C Shell 448 (Pty) Ltd – refer to note 5.

41.4 Contract administration

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

41 RELATED PARTY TRANSACTIONS continued

41.5 Transactions with associates

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

41.6 Dividends

MMI Holdings Ltd declared R271 million (2012: R247 million) in ordinary dividends, being 69 cents (2012: 63 cents) per ordinary share to RMI Holdings Ltd in September 2012 (2012: September 2011) and R200 million (2012: R172 million) in ordinary dividends, being 51 cents (2012: 44 cents) per ordinary share to RMI Holdings Ltd in March 2013 (2012: March 2012). In September 2012, MMI Holdings Ltd also declared R255 million in special dividends, being 65 cents per ordinary share to RMI Holdings Ltd. Another R299 million will be provided for during the 2014 financial year (as part of the dividend declared in September 2013).

41.7 Post-employment benefit plans

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

42 EVENTS AFTER THE REPORTING PERIOD

Refer to page 119 of the directors' report.

43 FINANCIAL RISK MANAGEMENT

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

Insurance risk: Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. Insured events are random and the actual number and amount of claims and benefits will vary from year to year.

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

Market risk: Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises price risk, interest rate risk, currency risk and property risk. In certain instances these risks are passed on to policyholders, eg when financial instruments subject to market risk back contract holder liabilities. Property risk has been included in this section, even though it is not a financial risk, as in certain cases properties back contract holder liabilities.

Credit risk: Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty and any debtors to which shareholders and policyholders are exposed. It could also arise from the decrease in value of an asset subsequent 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 and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment contract liabilities, the policyholder carries the credit risk. The group carries the risk on shareholder assets, and to a lesser extent, on insurance contract liabilities.

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

43 FINANCIAL RISK MANAGEMENT continued

43.1 Classes of assets and liabilities

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

	2013 Rm	Restated 2012 Rm
Assets		
Carried at fair value		
Designated at fair value through income		
Equity securities	**81 570**	64 731
Local listed	**66 772**	60 505
Foreign listed	**13 915**	2 834
Unlisted	**883**	1 392
Debt securities	**82 020**	79 091
Stock and loans to government and other public bodies		
Local listed	**30 973**	32 802
Foreign listed	**1 549**	1 598
Unlisted	**3 125**	2 741
Other debt instruments		
Local listed	**23 466**	20 940
Foreign listed	**326**	552
Unlisted	**22 581**	20 458
Funds on deposit and other money market instruments	**15 016**	12 468
Unit-linked investments *(refer to next table for further detail)*	**92 621**	79 839
Collective investment schemes		
Local unlisted or listed quoted	**55 373**	48 143
Foreign unlisted or listed quoted	**15 965**	18 647
Foreign unlisted unquoted	**1 511**	1 543
Other unit-linked investments		
Local listed quoted	**736**	241
Local unlisted unquoted	**11 309**	9 439
Foreign unlisted unquoted	**7 727**	1 826
Investments in associates designated at fair value through income *(refer to next table for further detail)*	**17 424**	14 333
Derivative financial instruments	**3 173**	3 579
Held for trading	**3 140**	3 529
Held for hedging purposes	**33**	50
Available-for-sale	**953**	2 902
Equity securities		
Local listed	**22**	20
Unlisted	**24**	4
Debt securities	**893**	2 867
Funds on deposit and other money market instruments	**9**	9
Local unlisted quoted collective investment schemes *(refer to next table for further detail)*	**5**	2

		2013 Rm	Restated 2012 Rm
43	**FINANCIAL RISK MANAGEMENT continued**		
43.1	**Classes of assets and liabilities continued**		
	Carried at amortised cost		
	Held-to-maturity – funds on deposit and other money market instruments	**69**	60
	Loans and receivables	**5 001**	3 880
	Accounts receivable	**1 560**	1 379
	Receivables arising from investment contracts	**158**	111
	Unsettled trades	**1 130**	352
	Loans	**2 153**	2 038
	Other receivables		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 760**	2 562
	Cash and cash equivalents	**19 424**	16 957
	Other assets	**23 112**	22 202
	Total assets	**343 143**	302 604

2012 reclassification
Refer to note 6.1 for details of reclassification.

Categories of 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 investment contracts issued by other insurance companies. Where the group is the contract holder of an investment contract at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

		2013 Rm	Restated 2012 Rm
43	**FINANCIAL RISK MANAGEMENT continued**		
43.1	**Classes of assets and liabilities continued**		
	Collective investment schemes		
	Local and foreign	**90 266**	82 201
	Equity	**44 803**	39 487
	Interest-bearing	**19 113**	17 749
	Property	**3 301**	2 099
	Mixed	**18 561**	15 660
	Money market	**4 488**	7 206
	Other unit-linked investments	**19 784**	11 973
	Local and foreign		
	Equity	**9 779**	6 140
	Interest-bearing	**4 870**	3 170
	Mixed	**4 399**	2 422
	Commodity	**736**	241
		110 050	94 174
	Designated at fair value through income: unit-linked investments	**92 621**	79 839
	Investments in associates designated at fair value through income	**17 424**	14 333
	Available-for-sale: local unlisted quoted collective investment schemes	**5**	2
		110 050	94 174
	2012 reclassification		
	Refer to note 6.1 for details of reclassification.		
	The following table reconciles the liabilities in the statement of financial position to liability classes:		
	Liabilities		
	Carried at fair value		
	Investment contracts		
	Designated at fair value through income	**158 569**	133 233
	Designated at fair value through income	**18 361**	15 246
	Collective investment scheme liabilities	**9 661**	6 743
	Subordinated call notes	**1 051**	1 062
	Carry positions	**7 649**	7 441
	Derivative financial instruments	**2 545**	2 040
	Held for trading	**2 545**	2 040
	Carried at amortised cost		
	Financial liabilities	**1 246**	854
	Cumulative redeemable preference shares	**313**	316
	Subordinated redeemable debt	**511**	511
	Finance lease liabilities	**3**	3
	Other	**419**	24
	Other payables	**9 663**	6 819
	Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**2 116**	2 728
	Payables arising from investment contracts	**945**	714
	Scrip lending collateral payable	**2 532**	108
	Unsettled trades	**1 181**	548
	Other payables at amortised cost	**2 889**	2 721
	Insurance contract liabilities	**96 817**	88 116
	Investment contracts with DPF	**24 937**	23 696
	Other non-financial liabilities	**7 141**	8 302
	Total liabilities	**319 279**	278 306

44 CAPITAL MANAGEMENT

44.1 Capital management objectives

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

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

44.2 Capital management framework

The capital management framework rests on the following three pillars:

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

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

44.3 Overview of capital management developments

44.3.1 Capital held in the holding company

MMI Holdings (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.

44.3.2 Capital allocated to the operating subsidiaries

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

The economic capital requirement for the group's main life insurance subsidiary, ie MMIGL, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the economic capital requirements for five years. The required capital level of the life insurance subsidiary reflects the approved risk appetite, which 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. The amounts of capital held by the group's operating subsidiaries are regularly compared to their economic capital requirement and the intention is to manage the actual capital levels to be in line with the economic capital requirements.

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

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

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

44 CAPITAL MANAGEMENT continued

44.3.3 Statutory capital requirement

All of the life insurance subsidiaries in the group must hold allowable capital of not less than the minimum prescribed statutory CAR. This prescribed minimum capital is available to meet obligations towards policyholders in the event of substantial adverse unexpected deviations from the best-estimate actuarial valuation assumptions.

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

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

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

The CAR of the group is included in retained earnings and must be maintained as statutory capital.

44.3.4 Amalgamation of long-term insurance licences

On 20 May 2013, the High Court of South Africa approved the amalgamation of the two main long-term insurance licences of the MMI group in terms of sections 37 and 38 of the Long-term Insurance Act, 52 of 1998. The approval of the amalgamation of the licences represents an important milestone towards the rationalisation of MMI Holdings' legal entities. Benefits include easier transferability of capital within the group, optimal use of capital because of further risk diversification and more efficient and simplified governance structures and compliance arrangements.

44.3.5 Regulatory capital developments

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

It is expected that SAM will ultimately result in substantial changes to the South African insurance capital management landscape, but the full impact of SAM on required capital levels is still uncertain at this stage. It is therefore appropriate to adopt a prudent approach towards capital management until clarity on the eventual impact of SAM is obtained. The group is actively participating in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in the light of local and international developments.

The FSB has recently moved the implementation date of SAM to 1 January 2016. Insurance companies are, however, expected to perform a "light" parallel run in 2014 and a "comprehensive" parallel run in 2015. MMI's internal SAM project is on track to meet these requirements.

MMI participated in the FSB's second Quantitative Impact Study (QIS2), the results of which were submitted to the FSB during the second part of 2012. MMI has also started preparations for the third Quantitative Impact Study (QIS3) under the current proposed SAM regime. The results of QIS2 showed that the capitalisation level of MMI is in line with that of the industry. The findings of the QIS exercises provide MMI with a more informed view and improved understanding of the potential impact of SAM on its future capital position and management.

44 CAPITAL MANAGEMENT continued

44.4 Sources of capital utilised

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

MMI Group Ltd	2013		2012*	
Regulatory capital	**Rm**	**%**	**Rm**	**%**
Tier 1	**13 182**	**89**	13 318	89
– core tier 1 (ie equity capital)	**12 699**	**86**	12 838	86
– non-redeemable preference shares	**483**	**3**	480	3
Tier 2: subordinated qualifying debt	**1 552**	**11**	1 563	11
Qualifying statutory capital	**14 734**	**100**	14 881	100

* Note: The figures for 2012 represent the combination of MMIGL and Metropolitan Life Ltd.

44.5 Regulatory capital position

At 30 June 2013, MMIGL's CAR was covered 2.6 times (2012: 2.4 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMI Group Ltd	2013	2012*
Regulatory capital position	**Rm**	**Rm**
Statutory excess over liabilities	**14 734**	14 881
CAR	**5 601**	6 164
CAR cover (times)	**2.6**	2.4

* Note: The figures for 2012 represent the combination of MMIGL and Metropolitan Life Ltd.

MMIGL's regulatory capital position improved over the 12 months ended 30 June 2013 as a result of an increase in the statutory surplus and a reduction in the CAR.

The increase in the surplus was mainly the result of the positive contribution from MMIGL's operating profits, which was partly offset by the dividends that MMIGL paid to MMI Holdings Ltd during the year under review.

The reduction in CAR is mainly attributed to a combination of the following offsetting factors:

- a decrease in investment risk due to a favourable economic environment and an improvement in the funding levels of the discretionary participating portfolios; and
- an increase in insurance risks, due to an increase in the size of the risk book and an increase in the allowance for pandemic risks.

44.6 Economic capital

The economic capital requirement for MMIGL is based on an internal capital projection model (using stochastic modelling techniques), while the other life insurance companies use a multiple of the statutory CAR to determine the economic capital requirement. The strategic operating subsidiaries of MMI Holdings Ltd hold sufficient capital as required for 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 intention is for the economic capital requirement to represent a long-term view (ie to look through the economic cycle).

Given the current uncertain impact of SAM on future capital requirements and capital management, MMI deems it prudent at this stage to keep a capital buffer. MMI also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, we are comfortable that the level of the capital buffer, after the ordinary final dividend, should be sufficient to meet future strategic requirements and the potential impact of SAM.

44.7 Group credit risk

On 13 August 2013, Fitch reviewed the credit ratings of MMIGL and MMI Holdings Ltd. The National Insurer Financial Strength (IFS) rating of MMIGL was affirmed at 'AA(zaf)' and MMI Holdings Ltd's National Long-term rating was affirmed at 'A+(zaf)'. The Outlooks for both companies are Positive.

The affirmations reflect the group's solid performance, strong capital position, well-established domestic franchise and strong and diversified distribution network. The Positive Outlooks reflect the improved profitability achieved by the group since the merger between Momentum and Metropolitan on 1 December 2010, the recurring cost savings already realised and the fact that the group is on track to meet its synergy target of recurring cost savings of R500 million per annum by June 2014.

45 INSURANCE AND INVESTMENT BUSINESS

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

2013	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	**38 569**	**24 808**	**7**	**63 384**
Individual contracts with DPF	**33 254**	**7 336**	**7**	**40 597**
Smoothed bonus business	**24 445**	**7 336**	**7**	**31 788**
Conventional with-profit business	**8 809**	**–**	**–**	**8 809**
Group contracts with DPF	**5 315**	**17 472**	**–**	**22 787**
Smoothed bonus business	**–**	**13 740**	**–**	**13 740**
Smoothed bonus business – fully vesting	**–**	**3 637**	**–**	**3 637**
With-profit annuity business	**5 315**	**95**	**–**	**5 410**
Market-related business	**20 756**	**156**	**151 308**	**172 220**
Individual market-related business	**20 756**	**156**	**100 241**	**121 153**
Group market-related business	**–**	**–**	**51 067**	**51 067**
Other business	**37 492**	**(27)**	**7 254**	**44 719**
Non-profit annuity business	**29 529**	**–**	**2 508**	**32 037**
Guaranteed endowments	**2 057**	**–**	**4 528**	**6 585**
Structured products	**–**	**–**	**52**	**52**
Other non-profit business	**5 906**	**(27)**	**166**	**6 045**
Total contract holder liabilities	**96 817**	**24 937**	**158 569**	**280 323**

2012	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	34 340	23 284	–	57 624
Individual contracts with DPF	30 154	7 334	–	37 488
Smoothed bonus business	21 788	7 334	–	29 122
Conventional with-profit business	8 366	–	–	8 366
Group contracts with DPF	4 186	15 950	–	20 136
Smoothed bonus business	–	11 743	–	11 743
Smoothed bonus business – fully vesting	–	4 118	–	4 118
With-profit annuity business	4 186	89	–	4 275
Market-related business	20 074	210	127 900	148 184
Individual market-related business	19 079	210	84 883	104 172
Group market-related business	995	–	43 017	44 012
Other business	33 702	202	5 333	39 237
Non-profit annuity business	26 608	–	1 051	27 659
Guaranteed endowments	2 232	–	4 185	6 417
Structured products	–	–	65	65
Other non-profit business	4 862	202	32	5 096
Total contract holder liabilities	88 116	23 696	133 233	245 045

45 INSURANCE AND INVESTMENT BUSINESS continued

45.1 Classes of insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the Financial Services Board 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 MMIGL board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. The full value of the underlying assets is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through underdistribution 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 operational risk to the extent that a negative BSA cannot reasonably be expected to be recovered through underdistribution 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
  - Momentum Employee Benefits smoothed bonus business
  - Momentum Employee Benefits with-profit annuity 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. These are all 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. These are still 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. These are still open to new business.
- As at 30 June 2013, the market value of underlying assets as a percentage of accumulated fund accounts was greater than 92.5% for all these classes of smoothed bonus business. The market value of the underlying assets in respect of all smoothed bonus business at 30 June 2013 was R49 billion (2012: R45 billion) for the group.
- 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.

45 INSURANCE AND INVESTMENT BUSINESS continued

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

- Certain guaranteed endowments are 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 by a combination of bonds and interest rate derivatives from inception.
- Credit risk for these policies is borne by the shareholder. The structured assets backing this business have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A.

Financial instruments

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

Structured products (financial instruments)

- The group issues tranches of term contracts where the benefits are defined in terms of specified financial variables. A specific asset structure to match the financial liability is created for each tranche.
- Credit risk for these policies is borne by the contract holder. The structured assets backing this business have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A.

45 INSURANCE AND INVESTMENT BUSINESS continued

45.1 Classes of insurance and investment business continued

Other non-profit business

- These are primarily insurance contracts of varying duration and inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- 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.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the group is 9.0% (2012: 8.7%).
- The investment contract liability is primarily in respect of inflation-linked benefits, which are discounted using a real yield curve. The average real yield that produces the same result is 1.5% (2012: 1.5%) for the group.

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.
- 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 18.
- 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.

45.2 Insurance risk

Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

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 board, Independent Audit Committee and the Financial Services Board. The Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The committee has been appointed by the board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

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

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

45 INSURANCE AND INVESTMENT BUSINESS continued

45.2 Insurance risk continued

45.2.1 Mortality, morbidity and medical risks

The risk that actual experience in respect of the rates of mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products. Underwriting processes are in place to manage exposure to death, disability and medical risks. The most significant measures are:

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

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

Individual insurance business

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

45 INSURANCE AND INVESTMENT BUSINESS continued

45.2 Insurance risk continued

45.2.1 Mortality, morbidity and medical risks continued

How risks are managed:

- Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Group practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
- To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown these are reliable indicators of the risk exposure.
- A guarantee period shorter than the policy term applies to risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
- All applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
- Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for each product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
- Underwriting is done to identify abnormal risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
- Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
- Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
- Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.

  Momentum Retail business – on individual lives that are medically underwritten and that are not members of employee benefit schemes, Momentum Retail retains 85% of the risk on amounts of cover not exceeding R5 million. Amounts of cover in excess of R5 million are 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 R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit. Reinsurance is generally on products which are fully underwritten although there is some reinsurance on products with limited underwriting as well.

- 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 R580 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 by sum insured at risk.

	2013			Restated 2012		
Sum insured per benefit (Rands)	Number of benefits	Amount (gross) Rm	Amount (net) Rm	Number of benefits	Amount (gross) Rm	Amount (net) Rm
0 – 20 000	**7 545 464**	**39 279**	**26 214**	7 715 333	53 850	24 420
20 001 – 50 000	**1 542 122**	**48 882**	**30 965**	1 049 870	35 558	25 421
50 001 – 100 000	**428 709**	**29 635**	**12 702**	264 760	21 864	11 574
100 001 – 200 000	**492 883**	**86 222**	**47 854**	384 820	80 650	45 337
200 001 – 500 000	**264 146**	**76 828**	**35 990**	148 873	57 208	30 423
500 001 – 1 000 000	**243 655**	**137 964**	**96 140**	240 947	145 852	100 781
> 1 000 000	**544 078**	**698 064**	**399 449**	423 242	595 458	347 920
	11 061 057	**1 116 874**	**649 314**	10 227 845	990 440	585 876

45 INSURANCE AND INVESTMENT BUSINESS continued

45.2 Insurance risk continued

45.2.1 Mortality, morbidity and medical risks continued

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - life insurance (mostly lump sum, but some children and spouse's annuities)
  - disability insurance (lump sum and income protection)
  - dread disease cover
  - continuation of insurance option.
- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry.
  - The products are, as a rule, quite simple and mostly basic products with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is a crucial 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 is waived if the group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause applies, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.
  - Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured.
  - There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels.
  - In addition, there is a catastrophe treaty 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	2013	2012
0 – 1 000	**6 820**	5 619
1 001 – 5 000	**365**	333
> 5 000	**149**	169

45 INSURANCE AND INVESTMENT BUSINESS continued

45.2 Insurance risk continued

45.2.1 Mortality, morbidity and medical 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. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
  - increased longevity due to medical advances and improvement in social conditions
  - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
  - Premium rates differentiate on the basis of age and sex.

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

	2013		2012	
Annuity amount per annum (Rands)	Number of annuitants	Total amount per annum Rm	Number of annuitants	Total amount per annum Rm
0 – 10 000	**85 736**	**344**	84 815	336
10 001 – 50 000	**48 021**	**1 062**	41 158	894
50 001 – 100 000	**8 583**	**595**	7 666	530
100 001 – 200 000	**3 535**	**484**	3 151	430
> 200 000	**1 594**	**574**	1 176	387
	147 469		137 966	

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 in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

45 INSURANCE AND INVESTMENT BUSINESS continued

45.2 Insurance risk continued

45.2.2 Contract persistency risk

- Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the 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 value of a policy, which normally happens early on in the term of recurring premium 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, for example contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical or death benefits.

How risks are managed:

- The recovery of expenses is in line with the regulatory limitations introduced in 2006. Therefore, in addition to setting realistic assumptions with regard to termination rates (rates of withdrawal and lapse) based on the group's actual experience, specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, efforts are in place to actively retain customers at risk of departure due to lapse, surrender or maturity.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and resources are directed towards the sale of business with higher persistency.
- Effective 1 January 2009, industry commission regulations have been reformed such that the commission paid on many products with investment contract features is more closely aligned to premium collection and the terms of the contract. This reduces the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

45.2.3 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.

The group performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience, 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 closed to new business, arising from past acquisitions.

45.2.4 Business volume risk

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

46 SHORT-TERM INSURANCE RISK

Insurance risk (short-term insurance business): risk arising from the underwriting of non-life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:

- Claims risk: refers to a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated.
- Catastrophe risk: the risk of loss, or of an adverse change in the value of insurance liabilities, resulting from significant uncertainty relating to the pricing and provisioning assumptions for extreme or exceptional events.

The group conducts short-term insurance business on different classes of short-term insurance risk. Types of contracts written:

- Personal accident: Provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury.
- Liability: Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.
- Motor: Provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire, theft and liability to other parties.
- Property: Provides indemnity relating to damage to movable and immovable property caused by perils, including fire explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.
- Transportation: Provides cover to risks relating to stock in transit.

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

	2013 Rm	2012 Rm
Premiums	**350**	47
Claims	**177**	10

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

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

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

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

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

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

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

The collective investment schemes not consolidated are included in the table in note 43.1 as Collective investment schemes and Investments in associates designated at fair value through income.

48 LIQUIDITY RISK

Liquidity risk governance

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

The Executive Committee of Balance Sheet Management (BSM) is responsible for the group's liquidity and funding risk management, with the BSM board sub-committee providing oversight for funding and liquidity risks assumed in the group's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities, and shareholder portfolios.

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

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 87% (2012: 88%) of the liabilities of the group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed policyholder benefits

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

Non-profit annuities' policyholder benefits

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

Conventional with-profit and smoothed bonus policyholder benefits

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

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

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

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

Linked and market-related policyholder benefits

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

48 LIQUIDITY RISK continued

Liquidity risk management continued

Policyholder liabilities continued

Other policyholder benefits

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

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

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

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares, the subordinated redeemable debt, and the subordinated call notes.

The group holds sufficient cash and liquid marketable financial instruments in its shareholder 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 listed equity instruments. The investment mandate and guidelines that govern the investment of shareholder funds restricts exposure to illiquid investments. The shareholder funds are thus not exposed to material liquidity risk.

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:

	2013		2012	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**65%**	**222 609**	69%	210 101
Medium[2]	**29%**	**98 708**	24%	71 428
Low/illiquid[3]	**6%**	**20 598**	7%	19 706
Other assets not included above				
– non-current assets held for sale		**680**		865
– employee benefit assets		**327**		302
– accelerated rental income		**97**		95
– deferred income tax		**124**		107
Total assets		**343 143**		302 604

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

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

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

48 LIQUIDITY RISK continued

Maturity profile of liabilities

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

2013	Carrying value Rm	Total Rm	Open-ended Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	> 10 years Rm
Insurance contracts (discounted cash flows)	**96 817**	**96 817**	**9 358**	**11 730**	**23 127**	**19 727**	**32 875**
Linked (market-related) business							
Individual	**20 376**	**20 376**	**3 151**	**1 681**	**5 214**	**4 536**	**5 794**
Smoothed bonus business							
Individual	**24 581**	**24 581**	**1 234**	**2 907**	**6 219**	**6 619**	**7 602**
Employee benefits	**1**	**1**	**–**	**1**	**–**	**–**	**–**
Conventional with-profit business	**8 749**	**8 749**	**2 715**	**360**	**998**	**833**	**3 843**
Non-profit business							
Individual	**5 557**	**5 557**	**469**	**2 601**	**1 729**	**274**	**484**
Employee benefits	**2 729**	**2 729**	**1 125**	**1 377**	**89**	**60**	**78**
Annuity business	**34 824**	**34 824**	**664**	**2 803**	**8 878**	**7 405**	**15 074**
Investment contracts with DPF (discounted cash flows)	**24 937**	**24 937**	**17 742**	**1 546**	**2 092**	**1 533**	**2 024**
Linked (market-related) business							
Individual	**154**	**154**	**(2)**	**16**	**54**	**45**	**41**
Smoothed bonus business							
Individual	**7 342**	**7 342**	**1 042**	**805**	**2 035**	**1 480**	**1 980**
Employee benefits	**17 423**	**17 423**	**16 696**	**699**	**11**	**11**	**6**
Non-profit business							
Individual	**(36)**	**(36)**	**6**	**(3)**	**(18)**	**(11)**	**(10)**
Annuity business	**54**	**54**	**–**	**29**	**10**	**8**	**7**
Investment contracts (undiscounted cash flows)	**158 569**	**158 028**	**82 786**	**8 943**	**23 582**	**8 580**	**34 137**
Linked (market-related) business							
Individual	**100 213**	**98 625**	**32 603**	**7 709**	**17 805**	**7 573**	**32 935**
Employee benefits	**50 032**	**50 032**	**50 032**	**–**	**–**	**–**	**–**
Non-profit business							
Individual	**4 619**	**5 287**	**133**	**763**	**4 323**	**61**	**7**
Annuity business	**3 705**	**4 084**	**18**	**471**	**1 454**	**946**	**1 195**

48 LIQUIDITY RISK continued

Maturity profile of liabilities continued

2013	Carrying value Rm	Total Rm	Open-ended Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	> 10 years Rm
Total policyholder liabilities under insurance and investment contracts	**280 323**	**279 782**	**109 886**	**22 219**	**48 801**	**29 840**	**69 036**
Financial liabilities designated at fair value through income	**18 361**	**18 523**	**9 661**	**7 649**	**1 213**	**–**	**–**
Collective investment scheme liabilities	**9 661**	**9 661**	**9 661**	**–**	**–**	**–**	**–**
Subordinated call notes	**1 051**	**1 213**	**–**	**–**	**1 213**	**–**	**–**
Carry positions	**7 649**	**7 649**	**–**	**7 649**	**–**	**–**	**–**
Derivative financial instruments	**2 545**						
Amortised cost	**1 246**	**1 501**	**–**	**474**	**1 017**	**10**	**–**
Cumulative redeemable convertible preference shares	**313**	**500**	**–**	**46**	**454**	**–**	**–**
Subordinated redeemable debt	**511**	**578**	**–**	**46**	**532**	**–**	**–**
Finance lease liabilities	**3**	**3**	**–**	**1**	**2**	**–**	**–**
Other	**419**	**420**	**–**	**381**	**29**	**10**	**–**
Other payables at amortised cost	**9 663**	**9 663**	**–**	**9 642**	**8**	**13**	**–**
Other liabilities	**7 141**						
Total liabilities	**319 279**	**309 469**	**119 547**	**39 984**	**51 039**	**29 863**	**69 036**

48 LIQUIDITY RISK continued

Maturity profile of liabilities continued

Notes to the maturity profile of liabilities table:

- 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.
- 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.
- Cash flows for derivative financial instruments have been disclosed on a net basis below.
- Other payables exclude premiums paid in advance and deferred revenue liabilities.
- Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 18.
- 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 subordinated call notes are callable by MMIGL from 15 September 2015, and will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under this bond.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.

Financial liabilities carried at amortised cost

- The A1 and A2 preference shares were converted during the previous year. It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- It is expected that the subordinated redeemable debt will be redeemed on 15 December 2014, being the earliest date on which the issuer can redeem the debt. The ultimate maturity date is 15 December 2019.
- The loan from FirstRand Bank Ltd of R375 million, included in other payables at amortised cost, has a repayment date of no later than February 2014. Cash outflow has therefore been included in the 0 to 1-year bracket.

48 LIQUIDITY RISK continued

Maturity profile of liabilities continued

2012	Carrying value Rm	Total Rm	Open-ended Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	> 10 years Rm
Insurance contracts (discounted cash flows)	88 116	88 116	6 236	10 760	23 724	18 061	29 335
Linked (market-related) business							
Individual	18 734	18 734	12	1 901	6 333	3 913	6 575
Employee benefits	13	13	–	1	9	3	–
Smoothed bonus business							
Individual	21 921	21 921	836	2 514	5 555	6 135	6 881
Conventional with-profit business	8 367	8 367	3 320	290	1 025	798	2 934
Non-profit business							
Individual	4 635	4 635	440	1 971	2 131	102	(9)
Employee benefits	2 569	2 569	1 064	1 278	73	56	98
Annuity business	31 877	31 877	564	2 805	8 598	7 054	12 856
Investment contracts with DPF (discounted cash flows)	23 696	23 696	16 441	1 552	2 611	1 621	1 471
Linked (market-related) business							
Individual	210	210	–	19	91	58	42
Smoothed bonus business							
Individual	7 334	7 334	974	967	2 467	1 528	1 398
Employee benefits	16 058	16 058	15 462	535	31	18	12
Non-profit business							
Individual	43	43	5	2	13	10	13
Annuity business	51	51	–	29	9	7	6
Investment contracts (undiscounted cash flows)	133 233	132 700	68 898	7 155	21 526	6 717	28 404
Linked (market-related) business							
Individual	84 863	83 342	28 797	6 204	15 440	5 765	27 136
Employee benefits	40 101	40 101	40 101	–	–	–	–
Non-profit business							
Individual	4 295	4 933	–	325	4 592	6	10
Annuity business	3 974	4 324	–	626	1 494	946	1 258

48 LIQUIDITY RISK continued

Maturity profile of liabilities continued

2012	Carrying value Rm	Total Rm	Open-ended Rm	0 to 1 year Rm	1 to 5 years Rm	5 to 10 years Rm	> 10 years Rm
Total policyholder liabilities under insurance and investment contracts	245 045	244 512	91 575	19 467	47 861	26 399	59 210
Financial liabilities designated at fair value through income	15 246	15 494	6 743	8 751	–	–	–
Collective investment scheme liabilities	6 743	6 743	6 743	–	–	–	–
Subordinated call notes	1 062	1 298	–	1 298	–	–	–
Carry positions	7 441	7 453	–	7 453	–	–	–
Derivative financial instruments	2 040						
Amortised cost	854	1 188	–	93	1 095	–	–
Cumulative redeemable convertible preference shares	316	544	–	46	498	–	–
Subordinated redeemable debt	511	615	–	46	569	–	–
Finance lease liabilities	3	4	–	1	3	–	–
Other	24	25	–	–	25	–	–
Other payables at amortised cost	6 819	6 819	–	6 814	3	2	–
Other liabilities	8 302						
Total liabilities	278 306	268 013	98 318	35 125	48 959	26 401	59 210

48 LIQUIDITY RISK continued

Maturity profile of derivative financial instruments

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

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

2013	Carrying value Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm	> 5 years Rm
Derivatives held for trading					
Equity derivatives	**(134)**	**(132)**	**(136)**	**4**	**–**
Interest rate derivatives	**996**	**191**	**268**	**(1 128)**	**1 051**
Bond derivatives	**(23)**	**30**	**30**	**–**	**–**
Credit derivatives	**2**	**2**	**–**	**–**	**2**
Currency derivatives	**(246)**	**(246)**	**(27)**	**(13)**	**(206)**
	595	**(155)**	**135**	**(1 137)**	**847**
Derivatives held for hedging					
Fair value hedges	**33**	**33**	**33**	**–**	**–**
Total net undiscounted cash flow projections	**628**	**(122)**	**168**	**(1 137)**	**847**
Derivative financial instruments					
Assets	**3 173**				
Liabilities	**(2 545)**				
	628				

2012	Carrying value Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm	> 5 years Rm
Derivatives held for trading					
Equity derivatives	321	322	203	(18)	137
Interest rate derivatives	1 256	3 332	19	1 715	1 598
Bond derivatives	(1)	124	151	10	(37)
Credit derivatives	2	3	–	–	3
Currency derivatives	(89)	(89)	(1)	(7)	(81)
	1 489	3 692	372	1 700	1 620
Derivatives held for hedging					
Fair value hedges	50	50	–	50	–
Total net undiscounted cash flow projections	1 539	3 742	372	1 750	1 620
Derivative financial instruments					
Assets	3 579				
Liabilities	(2 040)				
	1 539				

49 MARKET RISK

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

	Carrying value				
	2013 Rm	Restated 2012 Rm	Price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**81 570**	64 731	✓✓		✓
Debt securities	**82 020**	79 091	✓	✓✓	✓
Funds on deposit and other money market instruments	**15 016**	12 468	✓	✓✓	✓
Unit-linked investments	**92 621**	79 839	✓✓	✓	✓
Investments in associates designated at fair value through income	**17 424**	14 333	✓✓	✓	✓
Derivative financial instruments					
Held for trading	**3 140**	3 529	✓✓	✓✓	✓
Held for hedging purposes	**33**	50	✓✓	✓✓	✓
Available-for-sale					
Equity securities	**46**	24	✓✓		
Funds on deposit and other money market instruments	**9**	9	✓	✓✓	
Debt securities	**893**	2 867	✓	✓✓	
Local unlisted quoted collective investment schemes	**5**	2	✓✓		
Carried at amortised cost					
Held-to-maturity – funds on deposit and other money market instruments	**69**	60		✓✓	✓✓
Loans and receivables					
Accounts receivable	**1 560**	1 379		✓	✓
Receivables arising from investment contracts	**158**	111			✓
Unsettled trades	**1 130**	352			✓
Loans	**2 153**	2 038		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 760**	2 562			✓
Cash and cash equivalents	**19 424**	16 957		✓✓	✓
Other assets	**23 112**	22 202	N/A	N/A	N/A
Total assets	**343 143**	302 604			

✓✓ High exposure

✓ Medium/low exposure

2012 reclassification

Refer to note 6.1 for details of reclassification.

49 MARKET RISK continued

	Carrying value				
	2013 Rm	2012 Rm	Price risk	Interest rate risk	Currency risk
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**158 569**	133 233	✓✓	✓✓	✓
Designated at fair value through income					
Collective investment scheme liabilities	**9 661**	6 743	✓✓	✓	✓
Subordinated call notes	**1 051**	1 062		✓✓	
Carry positions	**7 649**	7 441	✓	✓✓	
Derivative financial instruments					
Held for trading	**2 545**	2 040	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable preference shares	**313**	316		✓✓	
Subordinated redeemable debt	**511**	511		✓✓	
Finance lease liabilities	**3**	3		✓✓	
Other	**419**	24		✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**2 116**	2 728			✓
Payables arising from investment contracts	**945**	714			✓
Scrip lending collateral payable	**2 532**	108			✓
Unsettled trades	**1 181**	548			✓
Other payables at amortised cost	**2 889**	2 721		✓	✓
Insurance contract liabilities	**96 817**	88 116	*	*	*
Investment contracts with DPF liabilities	**24 937**	23 696	✓✓	✓✓	✓✓
Other non-financial liabilities	**7 141**	8 302	N/A	N/A	N/A
Total liabilities	**319 279**	278 306			

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject are explained in note 45.

Market risk for shareholders is the risk that the fair value of future cash flows of financial instruments backing the shareholder excess will fluctuate because of changes in market prices, taking into account the second order impact on earnings due to such market price fluctuations of financial instruments backing the contract holder liabilities when asset-liability mismatch occurs as a result thereof. For market-related or unit-linked contracts:

- the policyholder carries the majority of the market risk; while
- 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.

49 MARKET RISK continued

Market risk governance

The executive Balance Sheet Management (BSM) Committee is responsible for the group's market risk management, with the board BSM Committee providing oversight for market risks assumed on behalf of shareholders in the group's statement of financial position.

The Group Policyholder Investment Committee monitors the performance of all investment portfolios, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks. The committee also considers 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. These financial instruments are 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 price, interest rate, currency and property price risks are discussed and disclosed below.

Market risk management per product

Various product lines in this category are offered, with some products closed to new business.

Assets are invested in a balanced mix of local and offshore equities, fixed-interest assets, property and cash, according to the asset manager's best investment view. Divisional Policyholder Investment Committees regularly monitor the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for smoothed bonus products.

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

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- A portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, the group has the right to remove previously declared non-guaranteed bonuses. This will only be done if 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 benefits exceed the market values. This is 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.
- Additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders 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.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual contracts offering investment guarantees

The 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 all closed to new business). On some smoothed bonus portfolios, there is also a guarantee to policyholders that the annual bonus rate will not be less than a contractual minimum (around 4.5% p.a.).

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 3.5% p.a. The guarantee charge 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 for specific terms.

49 MARKET RISK continued

Market risk management per product continued

Individual contracts offering investment guarantees continued

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

Group contracts with discretionary participation features (DPF)

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

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

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

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 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.

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

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R184 million (2012: R33 million) for MMIGL.

The calculation for MMIGL is based on the risk-free yield curve. The average rate that produces the same result is 8.6% (2012: 7.8%).

Guaranteed endowments and structured products

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

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

49 MARKET RISK continued

Market risk management per product continued

Individual life risk products

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. The present value of the future fees (included in the premium rates) expected to be earned on this business is capitalised and offset against the liabilities. A long-term interest rate is used to calculate the present value of the future fees. Any changes in long-term interest rates would therefore result in a change in the value of the negative rand reserves.

Other non-profit business

In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The group reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed-interest investments.

49.1 Price risk

Price risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in market prices.

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

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

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

Unlisted equity investment risks are managed as follows:

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

Refer to sensitivity analysis in note 49.5.

49 MARKET RISK continued

49.2 Interest rate risk

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

Exposure of financial instruments to interest rates

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

Instrument class 2013	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	**82 020**	**28 832**	**51 779**	**1 409**	**6.1**
Funds on deposit and other money market instruments	**15 016**	**13 081**	**1 921**	**14**	**5.8**
Available-for-sale					
Debt securities	**893**	**799**	**94**	**–**	**6.0**
Funds on deposit and other money market instruments	**9**	**6**	**3**	**–**	**–**
Held-to-maturity					
Debt securities	**69**	**69**	**–**	**–**	**6.0**
Cash and cash equivalents	**19 424**	**16 592**	**1 489**	**1 343**	**4.6**
Loans and receivables	**5 001**	**1 659**	**3**	**3 339**	**10.2**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 760**	**11**	**–**	**2 749**	**–**
	125 192	**61 049**	**55 289**	**8 854**	
Restated 2012					
Designated at fair value through income					
Debt securities	79 091	20 960	57 157	974	6.1
Funds on deposit and other money market instruments	12 468	11 237	1 231	–	4.9
Available-for-sale					
Debt securities	2 867	2 653	214	–	6.0
Funds on deposit and other money market instruments	9	7	2	–	–
Held-to-maturity					
Debt securities	60	60	–	–	6.0
Cash and cash equivalents	16 957	14 956	1 354	647	2.9
Loans and receivables	3 880	499	3	3 378	14.3
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 562	–	–	2 562	–
	117 894	50 372	59 961	7 561	

There is a contractual repricing of the coupon interest rate prior to the maturity date on the held-to-maturity assets with a carrying value of R69 million (2012: R60 million). Liability exposure to interest rates is reflected in notes 19 and 20. Derivative instrument exposure to interest rates is reflected in note 6.3.

2012 reclassification

Refer to note 6.1 for details of reclassification.

49 MARKET RISK continued

49.3 Currency risk

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

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

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

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

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

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

2013	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*15.2196*	*9.9801*	*13.0324*			
Investment securities							
Designated at fair value through income							
Equity securities	**402**	**1 171**	**9 214**	**1 039**	**763**	**794**	**13 383**
Debt securities	**779**	**46**	**1 463**	**532**	**4**	**–**	**2 824**
Funds on deposit and other money market instruments	**353**	**2**	**47**	**8**	**–**	**–**	**410**
Unit-linked investments	**154**	**1 039**	**18 693**	**1 374**	**70**	**60**	**21 390**
Investments in associates	**–**	**–**	**5 370**	**–**	**–**	**–**	**5 370**
Derivative financial instruments	**–**	**–**	**11**	**–**	**–**	**1**	**12**
Available-for-sale							
Debt securities	**–**	**–**	**2**	**–**	**–**	**–**	**2**
Loans and receivables	**104**	**21**	**108**	**11**	**18**	**9**	**271**
Cash and cash equivalents	**486**	**333**	**3 417**	**202**	**–**	**3**	**4 441**
Other financial assets	**292**	**–**	**–**	**–**	**–**	**–**	**292**
	2 570	**2 612**	**38 325**	**3 166**	**855**	**867**	**48 395**

49 MARKET RISK continued

49.3 Currency risk continued

Restated 2012	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*12.8826*	*8.2670*	*10.4012*			
Investment securities							
Designated at fair value through income							
Equity securities	298	286	1 097	233	152	144	2 210
Debt securities	528	25	964	333	24	5	1 879
Funds on deposit and other money market instruments	89	–	32	–	–	–	121
Unit-linked investments	97	886	14 509	1 076	8	85	16 661
Investments in associates	–	49	3 348	122	–	–	3 519
Derivative financial instruments	–	–	20	6	–	–	26
Available-for-sale							
Debt securities	–	–	9	–	–	–	9
Held-to-maturity							
Debt securities	60	–	–	–	–	–	60
Cash and cash equivalents	504	193	927	139	11	25	1 799
Other financial assets	273	8	31	–	–	–	312
	1 849	1 447	20 937	1 909	195	259	26 596

2012 reclassification
Refer to note 6.1 for details of reclassification.

African exchange rates representing material balances above are:

Closing exchange rate	Botswana	Ghana	Kenya	Nigeria
2013	**1.1602**	**4.9249**	**0.1165**	**0.0617**
2012	1.0727	4.2544	0.0981	0.0507

49.4 Property risk

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

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

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

	2013 Rm	2012 Rm
Investment properties	**6 433**	5 415
Owner-occupied properties	**1 488**	1 464
Properties under development	**98**	–
Collective investment schemes > 55% property exposure (refer to note 43.1)	**3 301**	2 102
	11 320	8 981
Percentage of total assets	**3.3**	3.0

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

The group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2013. The carrying amount of unlet and vacant investment property as at 30 June 2013 was R116 million (2012: R118 million).

49 MARKET RISK continued

49.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to insurance and market risks. The group has identified that changes in insurance risk, equity prices and interest rates have the most significant effect on earnings and equity. Refer to note 18 for sensitivities around insurance risk. The table below provides the sensitivity to a change in equity prices by 10% and a change to interest rates by 100 basis points.

	Equity prices		Interest rates	
2013	**Increase by 10% Rm**	**Decrease by 10% Rm**	**Increase by 100 bps Rm**	**Decrease by 100 bps Rm**
Increase/(decrease) in earnings	**298**	**(305)**	**168**	**(172)**
Increase/(decrease) in equity	**242**	**(246)**	**170**	**(173)**
2012				
Increase/(decrease) in earnings	253	(242)	154	(149)
Increase/(decrease) in equity	216	(209)	142	(139)

Sensitivity ranges

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

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year then ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable, but no changes are made to the prospective assumptions used in the measurement of contract holder liabilities.
- In line with MMI's current practice, the profits from insurance contracts were stabilised. This is particularly relevant for asset price movements away from the long-term average, provided that the investment stabilisation account has a positive balance.
- The change in equity prices was assumed to be a one-off 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. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

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

Currency sensitivity

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

50 CREDIT RISK

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

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

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive Balance Sheet Management Committee (executive BSM) charter. The primary responsibility of the executive BSM is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the 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 Policyholder Investment Committee is responsible for setting and monitoring the credit risk sections of mandates for linked policyholder portfolios.

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 a Balance Sheet Management Committee of the board (board BSM Committee).

Managing credit risk

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

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

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

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

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

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

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

50 CREDIT RISK continued

Concentration risk

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

Unit-linked investments

The group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to note 43.1 for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African 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. Collateral is maintained at a risk-adjusted level of at least 100% of scrip lent. In general, the lender retains the risk and reward of securities lent. The lender participates fully in the market movements of the investment.

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.

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 arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

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

Policy loans

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

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

Reinsurance

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

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

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

50 CREDIT RISK continued

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:

	2013 Rm	Restated 2012 Rm
Designated at fair value through income		
Debt securities	**82 020**	79 091
Stock and loans to government and other public bodies	**35 647**	37 141
Other debt instruments	**46 373**	41 950
Funds on deposit and other money market instruments	**15 016**	12 468
Unit-linked investments (categorised as interest-bearing and money market – refer to note 43.1)	**28 471**	28 125
Collective investment schemes	**23 601**	24 955
Other unit-linked investments	**4 870**	3 170
Derivative financial instruments	**3 173**	3 579
Held for trading	**3 140**	3 529
Held for hedging purposes	**33**	50
Available-for-sale	**907**	2 876
Debt securities	**893**	2 867
Funds on deposit and other money market instruments	**9**	9
Unit-linked investments	**5**	–
Held-to-maturity		
Debt securities	**69**	60
Loans and receivables	**5 001**	3 880
Accounts receivable	**1 560**	1 379
Receivables arising from investment contracts	**158**	111
Unsettled trades	**1 130**	352
Loans	**2 153**	2 038
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 760**	2 562
Cash and cash equivalents	**19 424**	16 957
Total assets bearing credit risk	**156 841**	149 598

2012 reclassification

Refer to note 6.1 for details of reclassification.

50 CREDIT RISK continued

Financial assets and liabilities designated at fair value through income

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

The current year and cumulative fair value movements in these instruments were mainly due to market movements, with no significant fair value movement attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

The subordinated call notes traded at an average spread of 119 basis points from 1 July 2012 to 30 June 2013 (140 basis points from 1 July 2011 to 30 June 2012). MMIGL's credit rating was affirmed at A(zaf) on 13 August 2013.

	Carrying value	
	2013 Rm	2012 Rm
Assets		
Debt securities	**60 322**	51 014
Funds on deposit and other money market instruments	**14 900**	12 860
	75 222	63 874
Liabilities		
Policyholder liabilities under investment contracts	**158 569**	133 233
Collective investment scheme liabilities	**9 661**	6 743
Subordinated call notes	**1 051**	1 062
Carry positions	**7 649**	7 441
	176 930	148 479

Security and credit enhancements

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

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

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

Debt securities

The group has a continuing guarantee relating to the full payment of the value of certain annuities, up to a maximum of R1 billion, if an event of default occurs. The fair value of these debt instruments at the reporting date was R209 million (2012: R297 million).

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R931 million (2012: R854 million), is secured by direct properties.

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 for when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments was R1 908 million at 30 June 2013 (2012: R1 830 million).

Available-for-sale

The group has put options against the unlisted preference share investments classified under available-for-sale assets as debt securities. The group can sell these preference shares, at an amount linked to the issue price, to a third party if a default event occurs. The fair value of these preference shares at the reporting date was R374 million (2012: R1 492 million).

50 CREDIT RISK continued

Security and credit enhancements continued

Scrip lending

The carrying value of scrip lent is R3 555 million (2012: R3 109 million) consisting of local listed equity securities.

The table below provides details of the nature and carrying value of the collateral held:

	Collateral held			Collateral held		
	On-balance sheet Rm	Off-balance sheet Rm	Total 2013 Rm	On-balance sheet Rm	Off-balance sheet Rm	Total 2012 Rm
Cash and cash equivalents	**1 645**	**1 230**	**2 875**	108	2 588	2 696
Equity securities	**–**	**–**	**–**	–	751	751
Debt securities	**886**	**–**	**886**	–	–	–
	2 531	**1 230**	**3 761**	108	3 339	3 447

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 326 million (2012: R1 277 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7.

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.

Credit quality

The assets in the group's maximum exposure table on page 242 are analysed in the table below, using national scale credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available.

2013	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	**23 476**	**8 744**	**2 978**	**–**	**–**	**294**	**155**	**35 647**
Debt securities – other debt instruments	**4 967**	**31 599**	**6 904**	**504**	**19**	**205**	**2 175**	**46 373**
Cash and cash equivalents and funds on deposit	**2 367**	**23 494**	**5 607**	**107**	**–**	**132**	**2 733**	**34 440**
Derivative financial instruments	**496**	**2 653**	**11**	**–**	**–**	**–**	**13**	**3 173**
Available-for-sale	**380**	**140**	**8**	**–**	**–**	**–**	**379**	**907**
Held-to-maturity	**–**	**69**	**–**	**–**	**–**	**–**	**–**	**69**
Other unrated instruments								
Loans and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**3 692**	**3 692**
Other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**2 337**	**2 337**
Unit-linked investments[1]	**–**	**–**	**–**	**–**	**–**	**–**	**28 471**	**28 471**
Past due or impaired assets	**–**	**–**	**–**	**–**	**–**	**–**	**1 732**	**1 732**
	31 686	**66 699**	**15 508**	**611**	**19**	**631**	**41 687**	**156 841**

[1] Refer to page 208 for detail on unit-linked investments and page 241 for credit risk management relating to unit-linked investments.

50 CREDIT RISK continued

Credit quality continued

Restated 2012	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	20 143	14 556	1 400	484	–	145	413	37 141
Debt securities – other debt instruments	3 677	30 650	5 321	87	218	199	1 798	41 950
Cash and cash equivalents and funds on deposit	2 410	21 031	3 663	89	–	125	2 107	29 425
Derivative financial instruments	1 024	2 528	17	–	–	–	10	3 579
Available-for-sale	234	2 028	206	–	4	–	404	2 876
Held-to-maturity	–	60	–	–	–	–	–	60
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	2 668	2 668
Other receivables	–	–	–	–	–	–	2 265	2 265
Unit-linked investments[1]	–	–	–	–	–	–	28 125	28 125
Past due or impaired assets	–	–	–	–	–	–	1 509	1 509
	27 488	70 853	10 607	660	222	469	39 299	149 598

[1] Refer to page 208 for detail on unit-linked investments and page 241 for credit risk management relating to unit-linked investments.

2012 reclassification

Refer to note 6.1 for details of reclassification.

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

	2013		2012	
Reinsurer	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	26%	A	12%	A
General Cologne Re	24%	AA	21%	AA
Hannover Re	7%	A	6%	A
RGA Re	6%	AA	10%	AA
Munich Re	17%	AA	35%	A
Other	20%	–	16%	–
	100%		100%	

50 CREDIT RISK continued

Credit quality continued

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

2013	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)	**96**	**162**	**63**	**13**	**334**
Accounts receivable	**286**	**271**	**36**	**2**	**595**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**660**	**142**	**71**	**18**	**891**
	1 042	**575**	**170**	**33**	**1 820**
2012					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	188	243	38	2	471
Accounts receivable	114	69	21	6	210
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	634	89	68	24	815
	936	401	127	32	1 496

51 VALUATION TECHNIQUES

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)*
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as 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 and 3. Refer to pages 252 and 255 for details of the instruments split into the different levels.

51 VALUATION TECHNIQUES continued

Class	Valuation techniques and assumptions
Financial assets	
Equity securities	
Listed, local and foreign	External valuations or quoted prices are used where instruments are traded in an inactive market. Management applies judgement in determining whether an adjustment is required to the quoted price. *(level 2)*
Unlisted	Unlisted equity securities mainly consist of delisted shares, private company ordinary shareholdings as well as preference shareholdings. Where external valuations are used, the valuation is based on the net asset values where the assets and liabilities are carried at fair value. *(level 3)* Where price-earnings ratios are used, the valuation is based on a relevant industry price-earnings ratio, adjusted for each individual investment. *(level 3)* Other preference shares classified as level 3 are valued using external valuations received from third parties.
Debt securities	
Stock and loans to other public bodies	
Listed	Local instruments are listed on the JSE interest rate market and are benchmarked against RSA bonds. The value is determined using a valuation model that uses market inputs (yield of benchmark bond). *(level 2)* Foreign bonds (other public bodies) are valued on a discounted cash flow basis, using a yield that results in the same Z-spread as that of a similar local listed instrument issued by the same entity. *(level 2)*
Unlisted	Some unlisted instruments are valued on a discounted cash flow basis, using a real interest rate ranging from 0.81% to 6.8% (2012: -0.99% to 1.87%). *(level 2)* Some unlisted instruments are valued on a discounted cash flow basis, using six-month JIBAR at the previous reset plus a fixed spread, 7.47% (2012: n/a). Some unlisted annuities are valued on a discounted cash flow basis, valued from a zero coupon bond curve plus an additional fixed spread to incorporate liquidity and credit risk, ranging between 0.41% and 8.41% (2012: 0.08% and 7.52%). *(level 3)*

51 VALUATION TECHNIQUES continued

Class	Valuation techniques and assumptions
Debt securities continued	
Other debt instruments	
Listed	
– Companion-linked bonds	These instruments are listed on the JSE interest rate market and are benchmarked against RSA bonds. The value is determined using a valuation model that uses market inputs. *(level 2)*
– Foreign structured notes	External parties provide live mark-to-market values for the foreign credit-linked notes which is the price at which the foreign note would currently be bought in the market. The valuation of the foreign credit-linked notes consists of three components – 1) Collateral 2) Credit default overlay and 3) An index performance swap. The collateral takes the form of a listed bond and is valued as such. The credit default overlay consists of a portfolio of credit default swaps structured as a synthetic collateralised debt obligation. The prices of the individual credit default swaps are quoted in the public domain. The index performance swap valuation is based on the movement of the underlying index. *(level 2)*
– Zero coupon bonds	Zero coupon bonds listed on the JSE interest rate market are valued using published prices. The prices are determined by the market forces of supply and demand and in accordance with established bond pricing models. *(level 2)*
– Floating rate notes	Listed floating rate notes are securities that reset coupons against a floating benchmark rate (usually on a quarterly basis) and are valued using prices obtained from the JSE interest rate market. Due to the complexity of the valuation of these instruments, they are either valued by the JSE interest rate market or externally by lead underwriters or the debt originators; values are available on request. *(level 2)*
– Credit-linked notes	The values of credit-linked notes are based on an underlying security which could be a share or a bond. Even though some of these are listed on the JSE interest rate market, the valuation generated by the JSE interest rate market is based on receiving quotes from market participants or valuation agents. *(level 2)*
– Inflation-linked bonds	These instruments are valued using published real yields to maturity ranging between 0.6% and 3.16% (2012: 0.7% and 4.5%). *(level 2)*
– Annuities (inflation-linked)	The valuation of the annuities is based on the discounting of real cash flows which are uplifted for inflation, with a discount rate of 1.51% (2012: 1.53%). *(level 2)*
– Linked notes	External valuations are used, which are based on the net asset value of the investment where the assets and liabilities are carried at fair value. *(level 2)*
– Preference shares	Listed preference shares are valued using published price quotations in an active market. *(level 2)*
Unlisted	
– Annuities	The valuation of unlisted annuities is based on a discounted cash flow basis, some using real discount rates ranging between -1.04% and 2.92% (2012: 1.86% and 4.2%) and others using nominal discount rates ranging between 5.35% and 11.04% (2012: 5.76% and 11.18%). *(level 2 and level 3)*
– Preference shares	Preference shares classified as level 2 instruments under available-for-sale financial instruments bore interest at market-related variable rates between 5.76% and 6.54% in 2012. Other preference shares classified as level 3 are valued using external valuations received from third parties.

51 VALUATION TECHNIQUES continued

Class	Valuation techniques and assumptions
Debt securities continued	
Other debt instruments continued	
Unlisted continued	
– Debentures	The valuation of unlisted debentures is based on the net asset value of a hedge fund where the assets and liabilities are carried at fair value. *(level 2)*
	Other debentures are valued by discounting future cash flows as per contract, with a market-related bond curve rate adjusted using an internally determined issuer spread. *(level 3)*
– Zero coupon bonds	Certain zero coupon bonds are valued by modifying the zero coupon bond curve using an internally determined average issuer spread. The modified discount rates range between 5.66% and 10.14% (2012: 5.59% and 9.5%). *(level 3)*
– Cash flow streams	The company acquired cash flows from property rental agreements of which the valuation is based on a discounted cash flow basis, using nominal rates ranging between 4.77% and 17.74% (2012: 5.84% and 9.89%). *(level 3)*
– Syndicated loan facilities	These loans are valued on a discounted cash flow basis, using nominal rates ranging between 6.83% and 9.76% (2012: 6.25% and 8.92%). *(level 3)*
– Local unlisted linked notes	External valuations are used which are based on a discounted cash flow basis, using bank swap curves. *(level 2)*
– Local unlisted structured deposits	External valuations are used which are based on a discounted cash flow basis, using bank swap curves. *(level 2)*
– Foreign unlisted credit-linked deposits	External valuations are used which are based on a discounted cash flow basis, using bank swap and credit default swap curves. *(level 2)*
– Credit-linked notes	The unlisted credit-linked notes are valued on a discounted cash flow basis, using three-month JIBAR at the previous reset plus a fixed spread, ranging between 5.26% and 6.17% (2012: 5.85% and 8.00%). *(level 2)*
– Equity-linked notes	For certain equity-linked notes classified as level 3 instruments, external valuations from third parties are used.
– Structured products	This classification relates to the capital guarantee portion of the local structured products. The capital guarantee is valued using market-related discount yields ranging between 5.38% and 8.73% (2012: 5.79% and 10.05%). *(level 2 and level 3)*
Funds on deposit and other money market instruments	
– Listed	The valuation of floating rate notes is based on a discounted cash flow basis where market-related yields are obtained from external parties. *(level 2)*
	Short-dated corporate paper is privately placed and trades infrequently. The valuation of this instrument is based on the issue price and does not change until maturity. *(level 2)*
	The values of credit-linked notes are based on an underlying security which could be a share or a bond. Even though some of these are listed on the JSE interest rate market, the valuation generated by the JSE interest rate market is based on receiving quotes from market participants or valuation agents. *(level 2)*
– Unlisted	The valuation of fixed deposits is established using the deposit rate from deposit notes. *(level 2)*
	The valuation of floating rate notes is based on a discounted cash flow basis where market-related yields are obtained from external parties. *(level 2)*

51 VALUATION TECHNIQUES continued

Class	Valuation techniques and assumptions
Unit-linked investments	
Collective investments schemes	
– Foreign unlisted unquoted	External valuations are used, which are based on the net asset value of the investment where the assets and liabilities are carried at fair value. *(level 2 and level 3)*
Other unit-linked investments	
– Unlisted unquoted	Where external valuations are used for investments in private equity funds, the valuation is based on the net asset values where the assets and liabilities are carried at fair value. *(level 3)* The valuations of the other investments are based on external confirmation of the market values of the investments. The external valuations are based on the value of the underlying investments that in most cases are listed or quoted instruments. *(level 2)* External valuations are used for the valuation of investments in hedge funds. *(level 3)*
Derivative financial instruments (OTC) (level 2)	
Equity derivatives	
– Options	A portion of the classification relates to the equity upside portion of the structured products. External confirmation of the market values is obtained and used as fair value. Generally, these options are valued using the Black-Scholes model. All other OTC equity index options are valued using the Black-Scholes model. Inputs are obtained from market observable data and where prices are obtainable from trading exchanges, the value per the exchange is used.
– Swaps	The value of an OTC equity swap is calculated as the net present value of the estimated floating costs, netted off by the performance of the underlying index over the contract term, both based on an underlying equity notional amount.
Interest rate derivatives	
– Swaps	The fair value is the net present value of the difference between the fixed and variable portion of the interest rates, as per the terms and conditions of the OTC agreement. Market-related yields applied in the discounted cash flow model are modified by credited coupon spreads.
– Forward rate agreements	Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market-traded instruments. The reset rate is determined in terms of the legal agreement.

51 VALUATION TECHNIQUES continued

Class	Valuation techniques and assumptions
Derivative financial instruments (OTC) (level 2) continued	
Bond derivatives	
– Options	External confirmation of the market values is obtained and used as fair value. Generally these options are valued using the Black-Scholes model.
– Swaps	Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market-traded instruments. The reset rate of each swap is determined in terms of the legal agreements pertaining to the swap.
Credit derivatives	
– Swaps	The credit default swap premiums as per the contract are discounted at a risk-free rate, on a discounted cash flow basis.
Currency derivatives	
– Swaps	Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market-projected forward value.
Financial liabilities	
Investment contracts designated at fair value through income	Valuation techniques are included in accounting policies on page 141.
Collective investment scheme liabilities	
– Unlisted unquoted	External valuations are used based on the net asset value of the scheme where the assets and liabilities are carried at fair value. *(level 1)*
Subordinated call notes	The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The subordinated redeemable debt is listed on the JSE interest rate market and is benchmarked against RSA bonds. The value is determined using a valuation model based on market inputs (yield of benchmark bond). *(level 2)*
Carry positions	Carry positions are valued by discounting cash flows using the funding curve and adjusting with the 'spread over yield' to match the JSE interest rate market repo pricing methodology. *(level 2)*
Derivative financial instruments	Valuation techniques are included in description of derivative financial instrument assets above. *(level 1 and level 2)*

51 VALUATION TECHNIQUES continued

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

2013	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	**188 080**	**92 293**	**8 278**	**288 651**
Equity securities	**80 070**	**680**	**820**	**81 570**
Debt securities	**21 698**	**55 476**	**4 846**	**82 020**
Funds on deposit and other money market instruments	**116**	**14 900**	**–**	**15 016**
Unit-linked investments	**68 932**	**21 118**	**2 571**	**92 621**
Investments in associates at fair value				
Unit-linked investments	**17 264**	**119**	**41**	**17 424**
Derivative financial instruments	**6**	**3 167**	**–**	**3 173**
Held for trading	**6**	**3 134**	**–**	**3 140**
Held for hedging purposes	**–**	**33**	**–**	**33**
Available-for-sale	**22**	**533**	**398**	**953**
Equity securities	**15**	**7**	**24**	**46**
Debt securities	**2**	**517**	**374**	**893**
Funds on deposit and other money market instruments	**–**	**9**	**–**	**9**
Unit-linked investments	**5**	**–**	**–**	**5**
	188 108	**95 993**	**8 676**	**292 777**

Restated 2012				
Designated at fair value through income	171 474	70 685	8 303	250 462
Equity securities	63 401	509	821	64 731
Debt securities	25 241	48 430	5 420	79 091
Funds on deposit and other money market instruments	256	12 212	–	12 468
Unit-linked investments	68 289	9 491	2 059	79 839
Investments in associates at fair value				
Unit-linked investments	14 287	43	3	14 333
Derivative financial instruments	39	3 540	–	3 579
Held for trading	39	3 490	–	3 529
Held for hedging purposes	–	50	–	50
Available-for-sale	19	2 505	378	2 902
Equity securities	14	6	4	24
Debt securities	3	2 490	374	2 867
Funds on deposit and other money market instruments	–	9	–	9
Unit-linked investments	2	–	–	2
	171 532	76 730	8 681	256 943

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

2012 reclassification

Refer to note 6.1 for details of reclassification.

51 VALUATION TECHNIQUES continued

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

	Financial instruments							
	Designated at fair value through income				Derivative financial instruments	Available-for-sale		
2013	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Held for trading Rm	Equity securities Rm	Debt securities Rm	Total Rm
Opening balance	821	5 420	2 059	3	–	4	374	8 681
Transfer (to)/from other asset classes	4	18	(5)	–	–	–	–	17
Total gains in net realised and fair value gains in the income statement	106	689	263	1	1	20	–	1 080
Purchases	489	305	1 005	25	2	–	–	1 826
Sales/settlements – at fair value	(600)	(1 609)	(751)	(5)	(3)	–	–	(2 968)
Transfers into level 3	–	23	–	17	–	–	–	40
Closing balance	820	4 846	2 571	41	–	24	374	8 676
Restated 2012								
Opening balance	1 133	7 084	2 650	–	–	4	374	11 245
Transfer (to)/from other asset classes	(210)	61	147	2	–	–	–	–
Total gains/(losses) in net realised and fair value gains in the income statement	180	612	(43)	1	–	–	–	750
Purchases	373	86	6 543	–	–	–	–	7 002
Sales/settlements – at fair value	(594)	(2 326)	(6 499)	–	–	–	–	(9 419)
Transfers into level 3	31	–	72	–	–	–	–	103
Transfers out of level 3	(92)	(97)	(811)	–	–	–	–	(1 000)
Closing balance	821	5 420	2 059	3	–	4	374	8 681

The amount of total gains or losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R882 million (2012: R764 million) for the group.

2012 reclassification

Refer to note 6.1 for details of reclassification.

51 VALUATION TECHNIQUES continued

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

	Financial instruments						
	Designated at fair value through income				Available-for-sale		
2013	Equity securities Rm	Debt securities[1] Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Equity securities Rm	Debt securities[1] Rm	Total Rm
Carrying value	820	4 846	2 571	41	24	374	8 676
Effect of 10% increase in value	82	143	257	4	2	37	525
Effect of 10% decrease in value	(82)	(166)	(257)	(4)	(2)	(37)	(548)
Restated 2012							
Carrying value	821	5 420	2 059	3	4	374	8 681
Effect of 10% increase in value	82	542	206	–	–	37	867
Effect of 10% decrease in value	(82)	(542)	(206)	–	–	(37)	(867)

[1] For 2013, the debt securities sensitivity is calculated using a 1% change in interest rates.

2012 reclassification

Refer to note 6.1 for details of reclassification.

51 VALUATION TECHNIQUES continued

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

2013	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	**860**	**157 046**	**663**	**158 569**
Financial liabilities designated at fair value through income	**9 661**	**8 700**	**–**	**18 361**
Collective investment scheme liabilities	**9 661**	**–**	**–**	**9 661**
Subordinated call notes	**–**	**1 051**	**–**	**1 051**
Carry positions	**–**	**7 649**	**–**	**7 649**
Derivative financial instruments	**146**	**2 399**	**–**	**2 545**
Held for trading	**146**	**2 399**	**–**	**2 545**
	10 667	**168 145**	**663**	**179 475**
2012				
Investment contracts designated at fair value through income	694	131 877	662	133 233
Financial liabilities designated at fair value through income	6 743	8 503	–	15 246
Collective investment scheme liabilities	6 743	–	–	6 743
Subordinated call notes	–	1 062	–	1 062
Carry positions	–	7 441	–	7 441
Derivative financial instruments	1	2 039	–	2 040
Held for trading	1	2 039	–	2 040
	7 438	142 419	662	150 519

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

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

	Investment contracts designated at fair value through income	
	2013 Rm	2012 Rm
Opening balance	**662**	254
Business combinations	**–**	11
Total gains or losses in income statement	**100**	386
Settlements – at fair value	**(54)**	–
Contract holder movements		
Premiums received	**–**	1
Benefits paid	**(34)**	(80)
Investment return	**8**	7
Transfers into level 3	**–**	83
Transfers out of level 3	**(19)**	–
Closing balance	**663**	662

Any change in the measurement of assets held to match obligations to policyholder investment contracts would result in a similar adjustment to the liabilities in the table above. Consequently, the group's overall profit or loss is not significantly sensitive to the inputs of the models applied to derive fair value.

51 VALUATION TECHNIQUES continued

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

	2013		2012	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Assets				
Held-to-maturity financial instruments	**69**	**69**	60	60
Loans and receivables	**5 001**	**5 047**	3 880	4 027
Loans	**2 153**	**2 199**	2 038	2 185
Receivables arising from investment contracts	**158**	**158**	111	111
Accounts receivable	**2 690**	**2 690**	1 731	1 731
Cash and cash equivalents	**19 424**	**19 424**	16 957	16 957
	24 494	**24 540**	20 897	21 044

Calculation of fair value

- For accounts receivable, cash and cash equivalents and receivables arising from investment contracts, the carrying value approximates fair value due to their short-term nature.
- The fair value of loans to empowerment partners of R304 million is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 11.5% (2012: 12%).
- For policy loans, the fair value of R1 357 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 between 7.9% and 9.5% (2012: 7.8% and 10.0%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.

Fee income on financial instruments not at fair value amounting to R13.6 million (2012: R12.7 million) for the group is included in fee income. Refer to note 27.

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

	2013		2012	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Liabilities				
Investment contracts with DPF	**24 937**	**24 937**	23 696	23 696
Amortised cost	**1 246**	**1 708**	854	1 185
Cumulative redeemable preference shares	**313**	**762**	316	619
Subordinated redeemable debt	**511**	**524**	511	539
Finance lease liabilities	**3**	**3**	3	3
Other	**419**	**419**	24	24
Other payables	**9 663**	**9 598**	6 819	7 150
Payables arising from investment contracts	**945**	**945**	714	978
Other payables	**8 718**	**8 653**	6 105	6 172
	35 846	**36 243**	31 369	32 031

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which is a reasonable approximation to the fair value of this financial liability.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2013, the expected cash flows were discounted at a current market rate of 10% (2012: 10%). 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.
- The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market).
- 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.

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Statement of financial position
at 30 June 2013

	2013 Rm	2012 Rm	Notes
ASSETS			
Equipment	**0.2**	0.2	2
Interest in subsidiary companies	**19 923.7**	18 900.0	3
Financial instruments	**1 552.2**	1 396.5	
Designated at fair value through income	**982.8**	872.7	4
Loans and receivables	**569.4**	523.8	5
Current income tax asset	**2.1**	3.3	12.1
Cash and cash equivalents	**20.0**	278.2	6
Total assets	**21 498.2**	20 578.2	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	**17 543.1**	17 549.6	7
Other components of equity	**54.8**	54.8	
Retained earnings	**2 894.6**	2 501.7	
Total equity	**20 492.5**	20 106.1	
LIABILITIES			
Financial instruments	**312.7**	316.3	
Amortised cost	**312.7**	316.3	8
Deferred income tax liability	**–**	43.0	9
Employee benefit obligations	**27.3**	19.7	10
Other payables	**665.7**	93.1	11
Total liabilities	**1 005.7**	472.1	
Total equity and liabilities	**21 498.2**	20 578.2	

Income statement
for the year ended 30 June 2013

	2013 Rm	2012 Rm	Notes
Investment income	**3 471.2**	2 708.6	13
Net realised and fair value gains	**187.0**	56.7	14
Net income	**3 658.2**	2 765.3	
Depreciation and impairment expenses	**109.8**	158.6	15
Employee benefit expenses	**52.7**	54.3	16
Other expenses	**183.4**	145.2	17
Expenses	**345.9**	358.1	
Results of operations	**3 312.3**	2 407.2	
Finance costs	**(51.2)**	(91.5)	18
Profit before tax	**3 261.1**	2 315.7	
Income tax credit/(expense)	**35.9**	(153.0)	12.2
Earnings for year attributable to owners of the company	**3 297.0**	2 162.7	

Statement of comprehensive income
for the year ended 30 June 2013

	2013 Rm	2012 Rm
Earnings for year	**3 297.0**	2 162.7
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the company	**3 297.0**	2 162.7

Statement of changes in equity
for the year ended 30 June 2013

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2011	17 161.7	1 948.2	54.8	19 164.7	
Total comprehensive income	–	2 162.7	–	2 162.7	
Dividend paid	–	(1 609.2)	–	(1 609.2)	
Share premium	387.9	–	–	387.9	7
Balance at 30 June 2012	**17 549.6**	**2 501.7**	**54.8**	**20 106.1**	
Total comprehensive income	**–**	**3 297.0**	**–**	**3 297.0**	
Share buy-back	**(6.5)**	**–**	**–**	**(6.5)**	7
Dividend paid	**–**	**(2 904.1)**	**–**	**(2 904.1)**	
Balance at 30 June 2013	**17 543.1**	**2 894.6**	**54.8**	**20 492.5**	

Statement of cash flows

for the year ended 30 June 2013

	2013 Rm	2012 Rm	Notes
Cash flow from operating activities			
Cash used in operations	**(224.0)**	(201.6)	19.1
Dividends received	**3 423.1**	2 631.5	13
Interest received	**48.1**	77.1	13
Income tax paid	**(5.9)**	(144.9)	19.2
Interest paid	**(54.9)**	(98.2)	19.3
Net cash inflow from operating activities	**3 186.4**	2 263.9	
Cash flow from investing activities			
Disposal of assets designated at fair value through income	**51.8**	48.2	
Investments in subsidiary companies	**(1 123.1)**	(404.5)	
Proceeds on disposal of subsidiary companies	**–**	16.0	
Loans from/(to) related parties	**537.4**	(207.3)	
Purchases of equipment	**(0.1)**	(0.1)	
Net cash outflow from investing activities	**(534.0)**	(547.7)	
Cash flow from financing activities			
Shares repurchased and cancelled	**(6.5)**	–	
Dividends paid	**(2 904.1)**	(1 609.2)	
Net cash outflow from financing activities	**(2 910.6)**	(1 609.2)	
Net cash flow	**(258.2)**	107.0	
Cash and cash equivalents at beginning	**278.2**	171.2	
Cash and cash equivalents at end	**20.0**	278.2	6

Notes to the financial statements
for the year ended 30 June 2013

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.

		2013 Rm	2012 Rm
2	**EQUIPMENT**		
	Cost	**1.1**	1.0
	Accumulated depreciation	**(0.9)**	(0.8)
		0.2	0.2
	Carrying amount at beginning	**0.2**	0.1
	Additions	**0.1**	0.1
	Depreciation charge	**(0.1)**	–
	Carrying amount at end	**0.2**	0.2
	Equipment comprises furniture and fittings and computer equipment.		
3	**INTEREST IN SUBSIDIARY COMPANIES**		
	Cost less impairment	**19 532.8**	18 259.1
	Loans to subsidiary companies (Annexure A1)	**390.9**	640.9
		19 923.7	18 900.0
	Opening balance	**18 900.0**	18 626.4
	Cost of interest in subsidiaries acquired	**1 405.1**	407.5
	Cost of subsidiary sold	**(36.7)**	(1.4)
	Less: impairment charge	**(94.7)**	(132.0)
	Movements in loans to subsidiary companies	**(250.0)**	(0.5)
	Closing balance	**19 923.7**	18 900.0

General

Details of interests in subsidiary companies are disclosed in Annexure A1.

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.

Subsidiaries acquired and sold

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R719.3 million during the current year.

Metropolitan Life (Namibia) Ltd (MetNam): In September 2012, the company sold all of its shares in MetNam for additional shares in MIH. The carrying value of the investment in MetNam (R36.2 million) was reallocated to the investment in MIH carrying value as there was no economic change for the company.

Eris Property Group (Pty) Ltd (Eris): On 29 October 2012, the company acquired 55% in Eris for R329 million. Some of these shares were then sold to Eris management and Kagiso Tiso Holdings (Pty) Ltd, who are existing shareholders in Eris. This resulted in an effective controlling interest of 54%. The carrying value of the investment is R261.6 million. As part of the same transaction, the business of Momentum Properties (Pty) Ltd (MP) was sold to Eris and the carrying value of the investment in MP (R0.5 million) was reallocated to the investment in Eris as there was no economic change for the company.

MMI Group Ltd (MMIGL): The company acquired the 50 000 non-redeemable, non-cumulative, non-participating preference shares in MMIGL from FirstRand Ltd in March 2013 for R387.5 million. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The company has not yet received dividends on these shares. Refer to note 15 in the group financial statements. The preference shares are viewed in light of IAS 27 – Consolidated and separate financial statements – as the terms are similar to normal equity shares and the cost has therefore been added to the carrying value of the investment in MMIGL.

3 INTEREST IN SUBSIDIARY COMPANIES continued

Impairment

The company impaired R94.7 million (2012: R279 million) of the investment in its subsidiary Metropolitan International (Pty) Ltd in the current year.

	2013 Rm	2012 Rm
4 DESIGNATED AT FAIR VALUE THROUGH INCOME		
Equity securities	**982.8**	872.7

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

5 LOANS AND RECEIVABLES		
Accounts receivable	**0.9**	3.0
Loans to related parties	**567.4**	519.7
Loans to subsidiary companies (Annexure A1)	**239.9**	207.3
Less: provision for impairment on loans to subsidiary companies	**(145.1)**	(130.1)
Loans to associates	**10.7**	9.8
Less: provision for impairment on loans to associates	**(3.0)**	(3.0)
Preference shares	**51.2**	–
Empowerment partners	**413.7**	435.7
Strategic unsecured loans	**1.1**	1.1
	569.4	523.8
Current	**432.8**	420.4
Non-current	**136.6**	103.4
	569.4	523.8
Reconciliation of provision for impairment		
Opening balance	**133.1**	195.7
Additional provisions for current year	**15.0**	26.6
Reversal of provisions	**–**	(89.2)
Closing balance	**148.1**	133.1

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest free, unsecured and have no repayment terms. The loan to Metropolitan Capital (Pty) Ltd carried no interest (2012: 12%) and was impaired by R15 million in the current year.
- The loans to associates include a loan to C Shell 448 (Pty) Ltd for R9.9 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods.
- Preference shares:
  - MMI Holdings Ltd acquired preference shares in Eris Property Fund (Pty) Ltd for R47.6 million in the current 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 R3.6 million in the current year. The preference shares have a term of five years from issue date.
- Loans to empowerment partners consist of:
  - an unsecured loan of R91.3 million (2012: R106.4 million) to a subsidiary (SPV) of Kagiso Tiso Holdings (Pty) Ltd (KTH), with a repayment date of between five and 10 years from date of issue (January 2005), on which interest is charged at 80% of the prime interest rate.

5 LOANS AND RECEIVABLES continued

Terms and conditions of material loans continued

– The loans to empowerment partners include R322.4 million (2012: R329.3 million) at 30 June 2013, 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 was initially charged at 80% of the prime interest rate of South Africa plus 9% per annum, and the preference shares had a repayment date of 31 July 2012. When the repayment date of the A3 MMI preference shares were extended to 29 June 2017, the A3 KTH SPV preference shares were also extended for a period of five years until 29 June 2017. The rate of the funding provided by MMI was changed to 88% of prime.

Impairment

The loans to subsidiary companies were impaired by R15 million (2012: R26.6 million) in the current year.

	2013 Rm	2012 Rm
6 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	**19.9**	37.0
Funds on deposit and other money market instruments – maturity < 90 days	**0.1**	241.2
	20.0	278.2

7 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital of MMI Holdings Ltd

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

Issued share capital of MMI Holdings Ltd

- 1.6 billion ordinary shares of 0.0001 cents each
- 34 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue. The A1 and A2 preference shares were converted into ordinary shares on a one-for-one basis during June 2012.

Number of shares in issue (million)	2013	2012
Opening balance	**1 570.1**	1 504.4
Share buy-back	**(0.3)**	–
Conversion of preference shares	**–**	65.7
Closing balance	**1 569.8**	1 570.1

Share capital and share premium	Rm	Rm
Opening balance	**17 549.6**	17 161.7
Share buy-back	**(6.5)**	–
Conversion of preference shares	**–**	387.9
Closing balance	**17 543.1**	17 549.6

Details of the preference shares are disclosed in note 20.1 of the group financial statements.

	2013 Rm	2012 Rm
8 FINANCIAL LIABILITIES AT AMORTISED COST		
Cumulative redeemable convertible preference shares	**312.7**	316.3
Current	**11.2**	11.2
Non-current	**301.5**	305.1
	312.7	316.3

Details of the cumulative redeemable convertible preference shares are disclosed in note 20.1 of the group financial statements.

		2013 Rm	2012 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	**90.2**	16.5
	Tax losses and credits	**90.2**	16.3
	Revaluations	**–**	0.2
	Deferred tax liability	**(90.2)**	(59.5)
	Revaluations	**(90.2)**	(59.5)
		–	(43.0)
	Current	**–**	(43.0)
	Movement in deferred tax		
	Balance at beginning	**(43.0)**	(34.9)
	Charge to income statement	**43.0**	(8.1)
	Change in tax rate	**–**	(11.7)
	Revaluations	**(30.7)**	(5.8)
	Tax losses and credits	**73.7**	9.4
	Balance at end	**–**	(43.0)
	Creation of deferred tax assets		
	Tax losses have been provided for as deferred tax assets where, at year-end, there was certainty as to their recoverability.		
	A deferred tax asset of R75.7 million, relating to a capital loss, has not been recognised due to the uncertainty of recoverability.		
10	**EMPLOYEE BENEFIT OBLIGATIONS**		
	Share scheme obligations	**25.6**	18.0
	Leave pay	**1.7**	1.7
		27.3	19.7
	Current	**18.8**	8.2
	Non-current	**8.5**	11.5
		27.3	19.7
	Cash-settled arrangement – long-term retention scheme		
	Balance at beginning	**18.0**	12.7
	Additional provisions	**18.8**	14.9
	Benefits paid	**(11.2)**	(9.6)
	Balance at end	**25.6**	18.0
	Leave pay		
	Balance at beginning	**1.7**	1.3
	Additional provisions	**0.1**	0.6
	Benefits paid	**(0.1)**	(0.2)
	Balance at end	**1.7**	1.7

10 EMPLOYEE BENEFIT OBLIGATIONS continued

Metropolitan Long-term Replacement Scheme (MetLTRS)

The Metropolitan Long-term Replacement Scheme (MetLTRS) is for all participants of the former Metropolitan Long-term Incentive Scheme (MetLTIS) who concluded an agreement with MMI Holdings Ltd, as mentioned in the group financial statements. The MetLTRS replaces the awards made to the relevant employees in 2008 (third tranche) and 2009 (fourth tranche) in terms of the MetLTIS and is fair and reasonable compared to the MetLTIS; refer to note 21.2 of the group financial statements.

MetLTRS	2013 '000	2012 '000
Number of units outstanding		
At beginning of year	**232**	479
Net forfeits, transfers and redemptions	**(232)**	(247)
At end of year	**–**	232

MetLTRS	4th tranche
Issue date	01/12/2009
Expiry date	01/12/2012
Outstanding units	232
Valuation assumptions include:	

	2012
Outstanding tranche period in years	0.4
Take-up rate on units outstanding	98%
Current vesting rate	200%
Adjusted share price, adjusted for future dividends and past special distributions	R16.72

The third tranche was settled in December 2011 at R16.72 per share, at a vesting rate of 200%. The fourth tranche was settled in December 2012 at R20.74 per share, at a vesting rate of 200%.

Critical accounting estimates and judgements

The fair value of the services provided is determined by using the fair value of the units granted, adjusted for non-financial performance indicators. The price of the forward, a financial variable, was derived using a risk-neutral forward pricing technique. The valuation methodology uses observable market prices, in conjunction with appropriate forward-looking dividend assumptions, to determine the value of the forward as the current market value of a portfolio with the same expected pay-off profile as the instrument. The non-financial variables include:

- a maximum vesting rate of 200%
- a target vesting rate of 100%

10 EMPLOYEE BENEFIT OBLIGATIONS continued

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

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

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

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

MMI Long-term Incentive Plan (MMI LTIP)

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

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

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

	2013 MMI LTIP '000	2012 MMI LTIP '000	2013 MMI LTRAS '000	2012 MMI LTRAS '000
Number of units outstanding				
At beginning of year	**567**	–	**916**	794
Allocations	**503**	567	**–**	–
Net forfeits, transfers and redemptions	**–**	–	**–**	122
At end of year	**1 070**	567	**916**	916
Performance units	**860**	455		
Retention units	**210**	112		
	1 070	567		

Inputs used in valuation of the MMI share schemes

	2013 MMI LTIP	2012 MMI LTIP	2013 MMI LTRAS	2012 MMI LTRAS
Current vesting rate	**100%**	100%	**100%**	100%
Share price at reporting date	**R22.17**	R18.00	**R22.17**	R18.00
Number of employees	**4**	4	**26**	3

		2013 Rm	2012 Rm
11	**OTHER PAYABLES**		
	Other payables	**18.0**	15.4
	Shareholder loan	**2.5**	2.5
	Loans from subsidiary companies (Annexure A1)	**645.2**	75.2
		665.7	93.1
	Current	**665.7**	93.1
	Terms and conditions of loans		
	The loans from subsidiary companies are interest-free, unsecured and payable on demand.		
12	**INCOME TAX**		
12.1	**Current income tax asset**		
	Movement in asset		
	Balance at beginning	**(3.3)**	(3.3)
	Charged to income statement	**7.1**	144.9
	Paid during year	**(5.9)**	(144.9)
	Balance at end	**(2.1)**	(3.3)
12.2	**Income tax expense**		
	Current taxation		
	Current year	**3.5**	7.2
	South African normal tax	**3.5**	7.2
	Prior year (overprovision)/underprovision	**(0.9)**	0.5
	Foreign countries – withholding tax	**4.5**	2.8
	Secondary tax on companies	**–**	134.4
		7.1	144.9
	Deferred tax	**(43.0)**	8.1
		(35.9)	153.0

		2013 %	2012 %
12	**INCOME TAX continued**		
12.2	**Income tax expense continued**		
	Tax rate reconciliation		
	Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
	Change in tax rate	**–**	0.5
	Secondary tax on companies	**–**	5.8
	Foreign tax	**0.1**	0.1
	Capital gains tax	**(1.3)**	(0.2)
	Non-taxable items	**(27.9)**	(27.7)
	Effective rate	**(1.1)**	6.5

		2013 Rm	2012 Rm
13	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividends received – listed equities	**29.2**	33.8
	Dividends received – subsidiary companies	**3 393.9**	2 597.7
	Interest income	**48.1**	77.1
	Designated at fair value through income	**0.7**	0.7
	Loans and receivables	**34.2**	49.2
	Cash and cash equivalents	**13.2**	27.2
		3 471.2	2 708.6
14	**NET REALISED AND FAIR VALUE GAINS**		
	Designated at fair value through income	**161.8**	42.1
	Profit on sale of subsidiary company	**25.2**	14.6
		187.0	56.7
15	**DEPRECIATION AND IMPAIRMENT EXPENSES**		
	Depreciation	**0.1**	–
	Impairment of investments in subsidiary companies	**94.7**	279.0
	Impairment of loans to subsidiary companies	**15.0**	26.6
	Impairment of loans capitalised to subsidiary companies	**–**	(147.0)
		109.8	158.6
16	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	**30.0**	36.1
	Contributions to medical aid funds	**0.4**	0.4
	Defined contribution retirement fund	**2.2**	1.9
	Share-based payment expenses		
	Cash-settled	**18.8**	14.9
	Training costs	**1.1**	0.7
	Other	**0.2**	0.3
		52.7	54.3
	Executive directors' emoluments included above	**26.8**	24.2

Details of the staff share schemes are disclosed in note 20 of the group financial statements.

		2013 Rm	2012 Rm
17	**OTHER EXPENSES**		
	Asset management fees	**3.4**	9.3
	Auditors' remuneration	**2.7**	5.1
	Audit fees	**2.7**	5.1
	Bank charges	**0.1**	0.1
	Consulting fees	**7.8**	13.6
	Information technology expenses	**1.0**	1.4
	Management fees	**126.9**	70.1
	Marketing costs	**12.7**	12.9
	Metropolitan Foundation	**–**	5.6
	Office costs	**4.0**	4.4
	Other expenses	**18.3**	17.6
	Other indirect taxes	**4.3**	3.2
	Travel expenses	**2.2**	1.9
		183.4	145.2
	Non-executive directors' emoluments included above	**10.8**	12.8
18	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	**45.5**	91.5
	Interest on Eris purchase payment	**5.7**	–
		51.2	91.5
19	**CASH FLOW FROM OPERATING ACTIVITIES**		
19.1	**Cash utilised in operations**		
	Profit before tax	**3 261.1**	2 315.7
	Adjusted for		
	Dividend received	**(3 423.1)**	(2 631.5)
	Interest received	**(48.1)**	(77.1)
	Finance costs	**51.2**	91.5
	Impairment of loans to and investments in subsidiary companies	**109.7**	158.6
	Depreciation	**0.1**	–
	Net realised and fair value gains	**(187.0)**	(56.7)
	Share-based payment expenses	**18.8**	14.9
	Leave pay – additional provision	**0.1**	0.6
	Changes in operating assets and liabilities		
	Loans and receivables	**2.1**	(1.7)
	Employee benefit obligations	**(11.5)**	(9.8)
	Other operating liabilities	**2.6**	(6.1)
		(224.0)	(201.6)
19.2	**Income tax paid**		
	Due at beginning	**(39.7)**	(31.6)
	Charged and provided	**35.9**	(153.0)
	Due at end	**(2.1)**	39.7
		(5.9)	(144.9)

		2013 Rm	2012 Rm
19	**CASH FLOW FROM OPERATING ACTIVITIES continued**		
19.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(26.4)**	(45.2)
	Paid 31 March	**(22.6)**	(45.2)
	Paid 30 June	**–**	(7.8)
	Other	**(5.9)**	–
		(54.9)	(98.2)

20 RELATED PARTY TRANSACTIONS

20.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 284 of the integrated report. Significant subsidiary companies are listed in Annexure A1. Other related parties include Kagiso Tiso Holdings (Pty) Ltd, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 24.5% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

20.2 Transactions with directors

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

20.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A1. The loans to associates were included in note 5.

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

	2013 Rm	2012 Rm
Interest income – Metropolitan Capital (Pty) Ltd	**–**	6.7
Administrative charges – Metropolitan Life Ltd	**36.3**	70.1
Asset management fee expense – Metropolitan Asset Managers Ltd	**0.5**	3.5
Asset management fee expense – Momentum Asset Management (Pty) Ltd	**2.2**	–
Fee expense – Metropolitan Capital (Pty) Ltd	**–**	7.7

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

21 CONTINGENT LIABILITIES

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

		2013 Rm	2012 Rm
22	**CAPITAL COMMITMENTS**		
	Authorised and contracted	–	363.0
		–	363.0

23 RISK MANAGEMENT POLICIES

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

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

		2013 Rm	Restated 2012 Rm
23.1	The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates.		
	Assets		
	Designated as at fair value through income	**982.8**	872.7
	Equity securities		
	Local listed	**982.8**	872.7
	Loans and receivables	**569.4**	523.8
	Loans	**568.5**	520.8
	Accounts receivable	**0.9**	3.0
	Cash and cash equivalents	**20.0**	278.2
	Other assets	**19 926.0**	18 903.5
	Total assets	**21 498.2**	20 578.2
	Liabilities		
	Amortised cost	**312.7**	316.3
	Cumulative redeemable preference shares	**312.7**	316.3
	Other payables	**665.7**	93.1
	Loans from subsidiary companies	**645.2**	75.2
	Other payables	**20.5**	17.9
	Other liabilities	**27.3**	62.7
	Total liabilities	**1 005.7**	472.1

2012 reclassification

Dual-listed investments of R219.5 million have now been classified as local listed equities.

		2013		2012	
		Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
23	**RISK MANAGEMENT POLICIES continued**				
23.2	The following table provides an analysis of the fair value of financial assets and liabilities not carried at fair value in the statement of financial position.				
	Assets				
	Loans and receivables	**569.4**	**550.4**	523.8	512.3
	Accounts receivable	**0.9**	**0.9**	3.0	3.0
	Loans to subsidiary companies	**94.8**	**94.8**	77.2	77.2
	Loans to associates	**7.7**	**7.7**	6.8	6.8
	Empowerment loans	**413.7**	**394.7**	435.7	424.2
	Preference shares	**51.2**	**51.2**	–	–
	Strategic loans	**1.1**	**1.1**	1.1	1.1
	Cash and cash equivalents	**20.0**	**20.0**	278.2	278.2
		589.4	**570.4**	802.0	790.5
	Liabilities				
	Cumulative redeemable preference shares	**312.7**	**762.2**	316.3	619.0
	Other payables	**665.7**	**665.7**	93.1	93.1
	Loans from subsidiary companies	**645.2**	**645.2**	75.2	75.2
	Other payables	**20.5**	**20.5**	17.9	17.9
		978.4	**1 427.9**	409.4	712.1

- For cash and cash equivalents, accounts receivable and other payables, the carrying value approximates fair value due to their short-term nature.
- For loans to subsidiary companies and the loans to associates there are no fixed terms of repayment. When the company is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The fair value of loans to empowerment partners and strategic loans is the discounted amount of the estimated future cash flows expected to be received. The expected future cash flows are discounted at 11.5% (2012: 12%).
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2013, the expected cash flows were discounted at a current market rate of 10% (2012: 10%). 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.
- For loans from subsidiary companies, the carrying value approximates fair value as they are payable on demand.

23 RISK MANAGEMENT POLICIES continued

23.3 Valuation techniques

The valuation of the company's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the input 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 is observable for the asset or liability, either directly (ie as prices) or indirectly (derived from prices) (level 2); and
- input for the asset or liability that is not based on observable market data (unobservable input) (level 3).

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

Equity securities are classified as level 1 instruments. Local listed equities and local unlisted quoted collective investment schemes are valued using published price quotations in an active market and are therefore classified as level 1.

23.4 Credit risk

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

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

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

	2013 Rm	2012 Rm
Loans and receivables	**569.4**	523.8
Loans	**568.5**	520.8
Accounts receivable	**0.9**	3.0
Cash and cash equivalents	**20.0**	278.2
Total assets bearing credit risk	**589.4**	802.0

Security and credit enhancements

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

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

	2013 Rm	2012 Rm
Cash and cash equivalents	**20.0**	278.2
AAA	**–**	37.8
AA	**19.9**	139.6
A	**–**	100.8
BBB	**0.1**	–
Unrated		
Loans and receivables	**569.4**	523.8
Loans	**568.5**	520.8
Accounts receivable	**0.9**	3.0
	589.4	802.0

- The loans to subsidiary companies were impaired by R15 million (2012: R26.6 million) in the current year.

23 RISK MANAGEMENT POLICIES continued

23.5 Liquidity risk

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

Liabilities at amortised cost

The A1 and A2 preference shares were converted during the prior year. It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The company has a further obligation to pay preference share dividends. The cash flow for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

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

Management of liquidity risk

The convertible redeemable preference shares are backed mostly by listed equity securities.

Equipment, interest in subsidiaries and certain loans to subsidiaries are less liquid assets and amount to R20 493.3 million, 95.3% of total assets (2012: R19 703 million, 94.5%).

The remainder of the assets – R1 004.9 million, 4.7% (2012: R1 154.2 million, 5.6%) – are seen to be liquid and relatively easy to realise.

The following table indicates the maturity analysis of the liabilities.

	Carrying value Rm	Undiscounted cash flows		
		Total Rm	0 to 1 year Rm	1 to 5 years Rm
2013				
Amortised cost				
Cumulative redeemable preference shares	**312.7**	**499.1**	**45.5**	**453.6**
Other payables	**665.7**	**665.7**	**665.7**	**–**
Other liabilities	**27.3**	**27.3**	**25.6**	**1.7**
Total liabilities	**1 005.7**	**1 192.1**	**736.8**	**455.3**
2012				
Amortised cost				
Cumulative redeemable preference shares	316.3	543.1	45.5	497.6
Other payables	93.1	93.1	93.1	–
Other liabilities	62.7	62.7	62.7	–
Total liabilities	472.1	698.9	201.3	497.6

23.6 Market risk

Introduction

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

Market risk governance

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

23 RISK MANAGEMENT POLICIES continued

23.6 Market risk continued

23.6.1 Equity price risk

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

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

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

	2013		2012	
Top five equity holdings	**%**	**Rm**	**%**	**Rm**
MTN Group Ltd	**10.9**	**106.7**	9.8	85.4
Compagnie Financiere Richemont Sa	**8.4**	**82.7**	–	–
SABMiller Plc	**8.1**	**79.6**	6.5	56.8
Naspers Ltd	**7.3**	**71.9**	–	–
Sasol Ltd	**7.1**	**70.0**	6.6	57.9
Billiton Plc	**–**	**–**	5.5	47.9
Standard Bank Group Ltd	**–**	**–**	5.5	47.7
	41.8	**410.9**	33.9	295.7

23.6.2 Interest rate risk

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

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

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

Instrument class and weighted average rate	**2013 Rm**	**2012 Rm**
Loans and receivables – empowerment partners		
Floating rate – weighted average rate 7% (2012: 14%)	**413.7**	435.7
Cash and cash equivalents		
Floating rate – weighted average rate 3.37% (2012: 5.2%)	**20.0**	278.2
	433.7	713.9

23.6.3 Sensitivity to market risks

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

Management identified the risk of a sudden drop in equity market values as the most significant market risk. The equity portfolio is managed with consideration of the market conditions at any given time. If the market values of equity securities decrease by 10% on the reporting date, the approximate impact would be a reduction of R98.3 million (2012: R87.2 million) on earnings before tax. An equal and opposite impact will occur if the market values increase by 10%.

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

The company has no foreign currency exposure.

Significant subsidiary companies

Annexure A1

		Interest held		Cost		Loans capitalised	
	Issued share capital R	2013 %	2012 %	2013 Rm	2012 Rm	2013 Rm	2012 Rm
Life insurance							
Metropolitan Life Ltd	**624m**	**100**	100	**658.1**	658.1	**–**	–
MMI Group Ltd	**1 041m**	**100**	100	**17 438.3**	17 050.8	**–**	–
Subsidiary companies							
Momentum Finance Company (Pty) Ltd	**1 021m**	**100**	100				
Momentum Structured Insurance Ltd	**5m**	**100**	100				
Momentum Alternative Insurance Ltd	**25m**	**100**	100				
Momentum Ability Ltd	**10m**	**100**	100				
Momentum Medical Scheme Administrators (Pty) Ltd	**4k**	**100**	100				
Momentum Healthcare Distribution (Pty) Ltd	[1]	**100**	100				
Azralox (Pty) Ltd	[1]	**100**	100				
Metropolitan International Support (Pty) Ltd (previously Momentum Africa Investments (Pty) Ltd)	[1]	**100**	100				
Momentum Life Botswana Ltd	**5m**	**100**	100				
Momentum Asset Management (Pty) Ltd (previously RMB Asset Management (Pty) Ltd)	**40k**	**100**	100				
Momentum Asset Management Namibia (Pty) Ltd (previously RMB Asset Management Namibia (Pty) Ltd) *(incorporated in Namibia)*	**20k**	**100**	100				
Momentum Asset Management Swaziland (Pty) Ltd (previously RMB Asset Management Swaziland (Pty) Ltd) *(incorporated in Swaziland)*	[1]	**100**	100				
Momentum Global Investment Management Ltd *(incorporated in England and Wales)*	**87m**	**100**	100				
Momentum Collective Investments Ltd (previously RMB Unit Trusts Ltd)	**4m**	**100**	100				
Momentum Alternative Investments (Pty) Ltd (previously FirstRand Alternative Investment Management (Pty) Ltd)	[1]	**100**	100				
Momentum Investment Consulting (Pty) Ltd	[1]	**100**	100				
Momentum Manager of Managers (Pty) Ltd (previously Advantage Asset Managers (Pty) Ltd)	**158m**	**100**	100				
Momentum Wealth (Pty) Ltd (previously Momentum Administration Services (Pty) Ltd)	[1]	**100**	100				
Momentum Wealth International Ltd (previously RMB Investment Services Ltd)	[1]	**100**	100				
Momentum International Insurance PCC *(incorporated in Guernsey)*	**2m**	**100**	100				
Momentum Interactive (Pty) Ltd	[1]	**100**	100				
Momentum Short-term Insurance Company Ltd	**10k**	**100**	50				
Subtotal				**18 096.4**	17 708.9	**–**	–

[1] The issued share capital of these companies is R1 000 or less.

[2] All companies are incorporated in South Africa unless otherwise stated.

		Interest held		Cost		Loans capitalised	
	Issued share capital R	2013 %	2012 %	2013 Rm	2012 Rm	2013 Rm	2012 Rm
Subtotal carried forward				**18 096.4**	17 708.9	**–**	–
Metropolitan Odyssey Ltd	**35m**	**100**	100	**36.0**	36.0	**–**	–
Metropolitan International Holdings (Pty) Ltd	**1 227m**	**100**	34	**756.0**	–	**–**	350.0
Subsidiary							
Metropolitan Life (Namibia) Ltd	**755m**	**96.5**	49		36.2		–
(incorporated in Namibia)							
Subsidiary							
Momentum Life Assurance Namibia Ltd	**10m**	**100**	51				
(incorporated in Namibia)							
Metropolitan International (Pty) Ltd	**400m**	**100**	100	**400.0**	400.0	**154.0**	54.0
Subsidiary companies							
UBA Metropolitan Life Insurance Ltd	**191m**	**50**	50				
(incorporated in Nigeria)							
Metropolitan Life Insurance Kenya Ltd	**74m**	**96**	98				
(incorporated in Kenya)							
Metropolitan Life Insurance Ghana Ltd	**88m**	**95**	92.2				
(incorporated in Ghana)							
Metropolitan Life Swaziland Ltd	**39m**	**67**	67				
(incorporated in Swaziland)							
Metropolitan Life International Ltd	**40m**	**100**	100	**47.1**	47.1	**–**	–
Metropolitan Life of Botswana Ltd	**94m**	**75.8**	75.8	**73.4**	73.4	**–**	–
(incorporated in Botswana)							
Metropolitan Lesotho Ltd	**120m**	**100**	100	**120.3**	120.3	**–**	–
(incorporated in Lesotho)							
MHG UK Ltd	**11k**	**100**	100	**–**	–	**–**	–
(incorporated in England)							
Metropolitan Retirement Administrators (Pty) Ltd	[1]	**80**	80	**28.0**	28.0	**–**	–
Investments							
Metropolitan Asset Managers Ltd	**149k**	**100**	100	**22.5**	22.5	**–**	–
Metropolitan Collective Investments Ltd	**13m**	**100**	100	**25.9**	25.9	**–**	–
Momentum Properties (Pty) Ltd	[1]	**100**	100	**–**	0.5	**–**	–
(previously Metropolitan Property Services (Pty) Ltd)							
Eris Property Group (Pty) Ltd	**80m**	**54.3**	–	**261.6**	–	**–**	–
Health							
Metropolitan Health (Pty) Ltd (previously							
Metropolitan Health Holdings (Pty) Ltd)	[1]	**100**	100	**31.8**	31.8	**236.9**	236.9
Subsidiary							
Metropolitan Health Corporate (Pty) Ltd	**62m**	**100**	100				
Other							
MMI Infrastructure and Operations (Pty) Ltd	[1]	**100**	100	**–**	–	**–**	–
Metropolitan Capital (Pty) Ltd	[1]	**100**	100	**–**	–	**–**	–
Momentum Trust Ltd (previously FNB Trust							
Services (Pty) Ltd)	[1]	**100**	100	**7.5**	7.5	**–**	–
Less: impairments				**(373.7)**	(279.0)	**–**	–
Total interest in subsidiary companies				**19 532.8**	18 259.1	**390.9**	640.9

[1] The issued share capital of these companies is R1 000 or less.

[2] All companies are incorporated in South Africa unless otherwise stated.

Other loans to/(from) subsidiary companies

	Amounts due to/(from) subsidiaries	
	2013 Rm	2012 Rm
Metropolitan Capital (Pty) Ltd	**46.2**	46.2
MMI Infrastructure and Operations (Pty) Ltd	**128.5**	128.5
MetHealth (Pty) Ltd (previously Metropolitan Health (Pty) Ltd)	**63.2**	31.8
Union Money (Pty) Ltd	**2.0**	0.8
	239.9	207.3
Less: impairments	**(145.1)**	(130.1)
Loans to subsidiary companies	**94.8**	77.2
Metropolitan Life Ltd	**(54.4)**	(13.3)
MMI Group Ltd (previously Momentum Group Ltd)	**(590.4)**	(61.9)
Momentum Asset Management (Pty) Ltd	**(0.4)**	–
Loans from subsidiary companies	**(645.2)**	(75.2)

Collective investment schemes – subsidiaries

Annexure A2

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

	Carrying value	
	2013 Rm	2012 Rm
Momentum MF Global Balanced A USD Fund	**6 800**	8 282
Momentum IF Global Equity Class A USD Fund	**6 669**	1 357
Momentum Global Aggressive Sub Fund	**4 418**	3 825
Momentum Balanced Fund	**2 556**	2 174
Momentum MoM Focused Equity Fund *(2012: Advantage Focused Equity Fund)*	**1 904**	1 500
Momentum MoM Macro Value Fund *(2012: Advantage Macro Value Fund)*	**1 365**	826
Momentum Best Blend Multifocus Fund of Funds	**1 323**	1 273
Momentum MoM High Growth Fund *(2012: Advantage High Growth Fund)*	**1 294**	937
Momentum IF Global Fixed Income A USD Fund	**1 163**	1 251
Momentum MoM Real Return Fund *(2012: Advantage Real Return Core Fund)*	**1 084**	1 080
Momentum MoM Property Equity Fund *(2012: Advantage Property Equity Fund)*	**1 005**	753
Momentum MoM Ultra Long-Term Value Fund *(2012: Advantage Ultra Long-Term Value Fund)*	**866**	1 012
Momentum MF International Equity A USD Fund	**824**	688
Momentum Property Fund	**770**	497
Momentum Global Managed Fund IC Ltd	**761**	*
Momentum MF Global Moderate Sub Fund	**732**	781
Momentum MoM Money Market Fund *(2012: Advantage Money Market Fund)*	**723**	1 175
Ampersand Momentum CPI Plus 4% Fund of Funds	**712**	619
Momentum IF Global Emerging Markets A USD Fund	**703**	*
Momentum MoM Emerging Manager Growth Fund *(2012: Advantage Emerging Manager Growth Fund)*	**672**	422
Momentum Best Blend Balanced Fund of Funds	**605**	480
Ampersand Momentum CPI Plus 2% Fund of Funds	**582**	474
Momentum MoM Emerging Manager Value Fund *(2012: Advantage Emerging Manager Value Fund)*	**574**	404
Momentum Optimal Yield Fund	**520**	805
Momentum Active Bond Fund *(2012: Advantage Active Bond Fund)*	**486**	520
Saffron MET Inflation Linked Bond Fund	**451**	*
Momentum Private Equity 2008 Feeder Fund	**354**	283
Momentum Conservative Fund	**327**	*
Momentum IF Euro Money Market EUR Fund	**284**	*
Momentum MoM Macro Growth Fund *(2012: Advantage Macro Growth Fund)*	**276**	287
Ampersand Momentum CPI Plus 6% Fund of Funds	**260**	259
Saffron MET Top 20 Fund	**254**	*
Fintax International Balanced Fund IC Ltd	**247**	227
Momentum IF Gl Money Market Fund	**245**	*
Ampersand Momentum Equity Fund	**237**	*
Momentum Capital Enhancer Fund	**219**	147
AS Forum Aggressive Fund of Funds	**189**	138
MET Odyssey Balanced Fund of Funds	**186**	*
Momentum Private Equity 2008 Master B USD Fund	**183**	*
Momentum Positive Return Fund	**183**	*
Momentum MoM Managed Bond Fund *(2012: Advantage Managed Bond Fund)*	**162**	448
MET Worldwide Opportunities Fund of Funds	**152**	*
Momentum International Conservative Feeder Fund	**147**	86
Stewart Macro Equity Fund of Funds	**136**	112
Subtotal	**43 603**	33 122

Collective investment schemes – subsidiaries continued

Annexure A2

	Carrying value	
	2013 Rm	2012 Rm
Subtotal – carried forward	**43 603**	33 122
Momentum Factor 5 Fund of Funds	**121**	14
Momentum Factor 7 Fund of Funds	**118**	*
Momentum Industrial Fund	**105**	85
Fintax International Growth Fund USD IC Ltd	**86**	69
Momentum IF Africa Ex-South Africa Equity A USD Fund	**86**	68
Warwick MET Managed Fund	**78**	*
Momentum International Income Fund	**68**	*
Imara MET Income Fund	**61**	*
Momentum Best Blend Stable Fund of Funds	**57**	48
Stewart Absolute Return Blend Fund of Funds	**48**	46
Kagiso Investment Partners Trust	**34**	26
AfroPulse (Pty) Ltd	**27**	*
Warwick MET Managed Fund of Funds	**10**	*
Momentum Factor Equity Fund of Funds	**5**	*
Orbis Inst. Global Equity M6 Fund	*	349
RMB Private Bank Growth Fund of Funds	*	262
Momentum Top 40 Fund	*	255
Momentum Structured Equity Fund	*	146
Momentum Resources Fund (Metropolitan Resources Fund)	*	90
Momentum Resources Fund (Ring-fenced)	*	68
Momentum Africa Equity Fund	*	17
Advantage Khathalela Short-term Income Fund	*	8
Advantage Khathalela Core Equity Fund	*	4
Momentum Inflation Linked Bond Fund	*	601
Total investment in CIS subsidiaries	**44 507**	35 278

* Not included in subsidiaries for year

All the above collective investment schemes are incorporated in South Africa, except for the funds listed below:

Fund name	Domicile
Fintax International Balanced Fund IC Ltd	Guernsey
Fintax International Growth Fund USD IC Ltd	Guernsey
Momentum MF Global Balanced A USD Fund	Luxembourg
Momentum MF Global Aggressive Sub Fund	Luxembourg
Momentum IF Global Equity Class A USD Fund	Luxembourg
Momentum IF Global Fixed Income Fund	Luxembourg
Momentum MF Global Moderate Sub Fund	Luxembourg
Momentum MF International Equity Fund	Luxembourg
Momentum IF Africa Ex-South Africa Equity A USD Fund	Luxembourg
Momentum Private Equity 2008 Feeder Fund	Luxembourg
Momentum Private Equity 2008 Master B USD Fund	Luxembourg
Momentum IF Euro Money Market EUR Fund	Luxembourg
Momentum IF Gl Money Market Fund	Luxembourg
Momentum IF Global Emerging Markets A USD Fund	Luxembourg
Momentum Global Managed Fund IC Ltd	Guernsey

Collective investment schemes – associates

Annexure B

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

	Carrying value	
	2013 Rm	2012 Rm
Momentum Money Market Fund	2 527	2 880
PSG Konsult Moderate Fund of Funds	1 398	*
CAM Bastion and Pinnacle Fund	767	*
CAM Optima Institutional Fund	752	750
CAM Balanced Fund	728	*
Momentum Equity Fund	561	618
Momentum International Equity Feeder Fund	541	195
PSG Konsult Creator Fund of Funds	540	*
CAM Universum Institutional Fund	497	361
First Global Saturn Flexible Funds of Funds	453	331
Marathon Global Equities Fund	410	*
Momentum Best Blend Specialist Equity Fund	365	281
Momentum Best Blend Flexible Income Fund	357	357
Prime Cabernet Stable Fund of Funds	336	*
Select Manager MET Prudential Fund of Funds	321	309
Momentum Conservative Fund	306	284
Nedgroup Investments Quants Core Equity Fund	298	*
First Global Venus Cautious Fund of Funds	292	260
Momentum Small/Mid-Cap Fund	259	256
CAM Fortis Fund	220	*
Saffron MET Opportunity Income Fund	208	*
Select Manager MET Flexible Growth Fund of Funds	188	118
PSG Konsult International Fund of Funds	179	*
Oasis General Equity Fund	178	*
VPFP International Growth Fund	172	*
36ONE MET Equity Fund *(2012: 36ONE Target Return Fund)*	161	23
Prime Chardonnay Moderate Fund of Funds	157	*
Momentum International Balanced Feeder Fund	154	57
High Yield Domestic Bond Fund	151	*
Momentum Global Balanced Fund	149	108
CAM Dividend Equity Fund	144	*
Platinum MET Balanced Prudential Fund of Funds	142	109
Momentum Flexible Fund	141	139
AS Forum Moderate Fund of Funds	139	109
Cadiz Equity Ladder Fund	119	207
Select Manager MET Cautious Fund of Funds	113	124
Quantum Capital Plus Fund of Funds	113	42
Momentum International Conservative Feeder Fund	106	*
Ashburton Multi-Manager Prudential Flexible Fund	103	*
Efficient Prudential Medium Fund of Funds	103	*
Momentum Top 25 Fund	98	95
VPFP International Cautious Fund IC	97	*
FGAM Global Cautious Fund	96	69
Dotport MET Prudential Fund of Funds	92	58
ADB MET Flexible Prudential Fund of Funds	92	*
Select Manager MET Global Moderate Fund of Funds	91	*
Ashburton Targeted Return Fund	86	*
Contego B5 Equity Fund	85	102
Momentum Diversified Yield Fund	84	74
FGAM Global Growth Fund IC Ltd	84	51
Momentum Value Fund	82	112
NeFG MET Flexible Fund	81	47
Ashburton Global Flexible Fund	75	*
Momentum Factor 3 Fund of Funds	66	3
Momentum Top 40 Index Fund	66	*
Subtotal	16 123	8 529

Collective investment schemes – associates continued

Annexure B

	Carrying value	
	2013	2012
	Rm	Rm
Subtotal – carried forward	**16 123**	8 529
NeFG Income Provider Fund of Funds	**63**	64
Platinum MET Income Provider Fund of Funds	**60**	*
Metropolitan Odyssey Balanced Fund of Funds	**60**	48
Baroque MET Moderato Fund of Funds	**59**	44
MI-PLAN IP Inflation Plus 7 Fund	**55**	*
Quantum Balanced Fund of Funds	**53**	25
Kagiso Islamic Equity Fund	**53**	*
Lynx International USD Fund	**53**	73
GCI MET Balance Fund of Funds	**52**	*
Momentum Sterling Balanced Fund	**51**	39
Dotport MET Flexible Fund of Funds	**50**	42
Element Islamic Equity Fund	**47**	*
MI-PLAN Triathlon IP Fund	**45**	42
MI-PLAN IP Inflation Plus 5 Fund	**41**	*
ZAR Opportunities Fund	**41**	42
Lesotho Unit Trust Fund	**38**	*
Prime Balanced Income Fund of Funds	**37**	*
Select Manager Money Market Fund	**36**	39
GFA MET Stable Fund of Funds	**35**	*
Xcede Property Fund	**34**	33
Sasfin MET Balanced Fund	**32**	*
Momentum GF Global Franchise Fund	**32**	*
GFA MET Managed Fund of Funds	**25**	*
Prescient Africa Equity Fund	**24**	*
Ashburton Multi Manager Equity Fund	**22**	*
NeFG Equity Fund	**21**	17
Clarus MET Property Fund	**21**	*
Montrose MET Moderate Fund of Funds	**21**	*
Metropolitan Odyssey Conservative Fund of Funds	**19**	*
MI-PLAN IP Inflation Plus 3 Fund	**18**	17
Contego B3 MET Protected Balanced Fund *(2012: Contego B6 Balanced Fund)*	**18**	20
AS Forum Cautious Fund of Funds	**18**	13
Grindrod Managed Growth Fund *(2012: Grindrod Pacer Fund)*	**15**	21
Quantum Worldwide Flexible Fund of Funds	**14**	11
H4 Worldwide Equity	**12**	*
H4 Diversified Fund	**5**	*
H4 Growth Fund	**5**	*
Montrose MET Flexible Fund of Funds	**5**	*
MI-Plan IP Alternate Return Fund	**4**	*
H4 Stable Fund	**4**	*
Cannon MET Flexible Fund	**2**	43
Kagiso Protector Fund	**1**	*
Equisafe Global Masters Fund	*	3
Momentum Income Plus Fund	*	638
Momentum Bond Fund	*	303
Imara Equity Fund	*	53
RMB Private Bank Defensive Fund of Funds	*	259
Dotport Cautious Fund of Funds	*	22
Metropolitan Value Portfolio	*	4
Metropolitan Cautious Portfolio	*	4
Metropolitan Enhanced Income Portfolio	*	4
Lynx International EUR Fund	*	6
Marriott First World Equity Feeder Fund	*	8
Financial Alliance Flexible Fund of Funds	*	6
MI-PLAN IP Protected Equity Fund	*	9
Subtotal	**17 424**	10 481

	Carrying value	
	2013	2012
	Rm	Rm
Subtotal – carried forward	**17 424**	10 481
Momentum Factor 7 Fund of Funds	*	17
BJM Multi-Manager Core Equity Fund	*	14
Xcede Conservative Fund of Funds	*	26
NeFG Balanced Fund (closed and merged into NeFG Flexible Fund)	*	25
Financial Alliance Inflation Plus 3 Fund of Funds	*	30
RMB Private Bank Global Flexible Fund of Funds	*	61
Momentum Maximum Income Fund	*	224
Flagship International Flexible Fund	*	91
Momentum International Income Fund	*	62
Lynx International GBP Fund	*	87
Quantum Conservative Fund of Funds	*	86
Select Manager Global Growth Fund of Funds	*	63
BJM Multi-Manager Prudential Flexible Equity Fund	*	74
Momentum IF Global Money Market Fund	*	190
Momentum IF Global Spread Capture A USD Fund	*	276
Momentum IF Global Spread Capture Feeder Fund IC Ltd USD	*	51
Momentum IF Global Equity Class A USD Fund	*	2 475
	17 424	14 333

* Not included in associates for year

Shareholder profile

SHAREHOLDER	Number of share-holders	% of issued share capital	Shares held (million)
Non-public			
Directors (excluding shares in staff share scheme)	11	0.1	2
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	1	24.5	393
Government Employees Pension Fund	1	9.4	151
Public			
Private investors	24 374	4.0	64
Pension funds	278	12.3	197
Collective investment schemes and mutual funds	2 201	28.9	464
Banks and insurance companies	260	13.7	219
Total	27 128	100.0	1 604

An estimated 420 million shares (2012: 266 million shares) representing 26.2% (2012: 16.6%) of total shares are held by foreign investors.

SIZE OF SHAREHOLDING	Number of share-holders	% of total share-holders	Shares held (million)	% of issued share capital
1 – 5 000	22 756	83.9	22	1.4
5 001 – 10 000	1 737	6.4	13	0.8
10 001 – 50 000	1 681	6.2	36	2.2
50 001 – 100 000	354	1.3	25	1.6
100 001 – 1 000 000	473	1.7	143	8.9
1 000 001 and more	127	0.5	1 365	85.1
Total	27 128	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	393	24.5
Government Employees Pension Fund	151	9.4
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
Liberty Life Association of Africa Ltd	49	3.1
FirstRand Empowerment Trust	48	3.0
Total	755	47.1

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 2013, are disclosed.

Stock exchange performance

	2013	2012
12 months		
Value of listed shares traded (rand million)	**16 060**	11 420
Volume of listed shares traded (million)	**733**	655
Shares traded (percentage of average listed shares in issue)	**47**	43
Value of shares traded – life insurance (J857 – Rbn)	**155**	119
Value of shares traded – top 40 index (J200 – Rbn)	**3 059**	2 791
Trade prices		
Highest (cents per share)	**2 700**	1 976
Lowest (cents per share)	**1 792**	1 505
Last sale of period (cents per share)	**2 217**	1 800
Percentage (%) change during period	**23**	6
Percentage (%) change – life insurance sector (J857)	**37**	29
Percentage (%) change – top 40 index (J200)	**18**	4
30 June		
Price/diluted core headline earnings (segmental) ratio	**11.0**	9.8
Dividend yield % (dividend on listed shares)	**5.7**	6.3
Dividend yield % – top 40 index (J200)	**2.9**	3.0
Total shares issued (million)		
Listed on JSE	**1 570**	1 571
Treasury shares held on behalf of contract holders	**(14)**	(13)
Basic number of shares in issue	**1 556**	1 558
Treasury shares held on behalf of contract holders	**14**	13
Convertible redeemable preference shares	**34**	34
Diluted number of shares in issue[1]	**1 604**	1 605
Market capitalisation at end (Rbn)[2]	**36**	29
Percentage (%) of life insurance sector	**13**	13

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

[2] The market capitalisation is calculated on the fully diluted number of shares in issue.

Shareholder diary

Financial year-end	30 June	
Reporting	Interim results	6 March 2013
	Announcement of year-end results	11 September 2013
	Annual report published	30 September 2013
	Annual general meeting	27 November 2013
Ordinary dividends	**Interim**	
	Declared	5 March 2013
	Remat/Demat	22 March 2013 to 28 March 2013
	Record date	28 March 2013
	Paid	2 April 2013
	Final	
	Declared	10 September 2013
	Remat/Demat	30 September 2013 to 4 October 2013
	Record date	4 October 2013
	Paid	7 October 2013

Administration

MMI HOLDINGS LTD

Group company secretary and registered office
Maliga Chetty
268 West Avenue
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Company registration
2000/031756/06

American Depository Receipt
CUSIP: 592144109
Depository: Bank of New York

Internet address
http://www.mmiholdings.com
E-mail: info@mmiholdings.co.za

Sponsor – South Africa
Merrill Lynch

Transfer secretaries – South Africa
Link Market Services SA (Pty) Ltd
13th Floor, Rennie House
19 Ameshoff Street
Braamfontein
PO Box 4844, Johannesburg 2000

Sponsor – Namibia
Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia
Transfer Secretaries (Pty) Ltd
Shop 8, Kaiserkrone Centre
Post Street Mall, Windhoek, Namibia
PO Box 2301, Windhoek, Namibia

Auditors
PricewaterhouseCoopers Inc.

Share codes
JSE – MMI
NSX – MIM
Abbreviated name – MMI HLDGS

Notice of annual general meeting

Notice to members of the 12th (twelfth) annual general meeting of MMI Holdings Limited ("MMI" or the "company")

Notice is hereby given (the "notice") that the 12th (twelfth) annual general meeting ("AGM") of the shareholders of the company, for the year ended 30 June 2013, will be held at 16:00 on Wednesday, 27 November 2013, at 54 on Bath Boutique Hotel, 54 Bath Avenue, Rosebank, Johannesburg. Registration for attendance at the AGM will commence at 15:00.

This document is important and requires your immediate attention

If you are in any doubt about what action you should take, consult your broker, Central Securities Depository Participant ("CSDP"), banker, financial adviser, accountant or other professional adviser immediately.

If you have disposed of all your shares in MMI, please forward this document, together with the enclosed form of proxy, to the purchaser of such shares or the broker, banker or other agent through whom you disposed of such shares.

Included in this document are the following:

- The resolutions to be proposed at the meeting, together with explanatory notes. There are also guidance notes if you wish to attend the meeting or to vote by proxy.
- A proxy form for completion, signature and submission to the share registrars 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 this regard, telephone-conferencing facilities will be made available at Momentum Building, 268 West Avenue, Centurion and at Parc du Cap, 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 Centurion or Bellville location by written notice delivered to the company, at the address detailed hereunder, by no later than Wednesday, 20 November 2013. The abovementioned facilities will only be made available on the date of the AGM if you have notified the company on/before 20 November 2013 that you intend to participate in the AGM by electronic means from Centurion or Bellville. Should you fail to notify the company timeously of your intention, this facility will not be available on the date of the AGM.

Please note that the cost of the telephone-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 pages 293 to 294 of the 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 the notice was Friday, 20 September 2013, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 22 November 2013. Accordingly, only shareholders who are registered in the register of members of the company on Friday, 22 November 2013, 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 Friday, 15 November 2013.

Business to be transacted

The purpose of the AGM is for the following business to be transacted:

- presentation of the report of the board of directors of the company
- presentation of the Audit Committee's report
- verbal feedback from the Social, Ethics and Transformation Committee (A full copy of the report is available in the corporate governance section of the MMI Holdings website www.mmiholdings.com.)
- presentation of the annual financial statements of the company for the financial year ended 30 June 2013 (Should you require a complete copy of the annual financial statements for the preceding financial year, this can be accessed on the MMI website.)
- election of the directors of the company
- approval of the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company, with Ms A du Preez as the designated audit partner

- approval of the appointment of the Audit Committee of the company
- to consider and, if deemed fit, to pass, with or without modification, the special and ordinary 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 Limited (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 director appointed by the board

Ms NDL Motsei was appointed by the board of directors of the company with effect from 26 November 2012. In accordance with the Companies Act, 71 of 2008, as amended (the "Act") and the memorandum of incorporation of the company, Ms Motsei retires and, being eligible, has offered herself for election by shareholders of the company. Her brief curriculum vitae is presented on page 36 of the integrated report.

Accordingly, the shareholders are asked to consider and, if deemed fit, to elect Ms Motsei as a director of the company.

"Resolved as an ordinary resolution that Ms NDL Motsei be and is hereby elected as a director of the company with immediate effect."

Effect of ordinary resolution number 1

If ordinary resolution number 1 is passed, the effect will be that Ms NDL Motsei will be appointed as a director of the company.

2. Ordinary resolution number 2

Retirement by rotation and re-election of directors

In accordance with the company's memorandum of incorporation, at least one third of the directors of the company are required to retire by rotation as directors of the company at this AGM. In these circumstances Mr JP Burger, Mr SA Muller, Mr JC van Reenen, Mr PJ Moleketi and Mrs M Vilakazi retire by rotation in accordance with the company's memorandum of incorporation and, being eligible, have offered themselves for re-election.

Brief curricula vitae of those directors standing for re-election are presented on pages 36 to 39 of the integrated report.

Accordingly, the shareholders are asked 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 JP Burger 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 SA Muller 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 JC van Reenen 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 PJ Moleketi be and is hereby re-elected as a director of the company with immediate effect."

Ordinary resolution 2.5

"Resolved as an ordinary resolution that Mrs M Vilakazi 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 JP Burger, Mr SA Muller, Mr JC van Reenen, Mr PJ Moleketi and Mrs M Vilakazi will be appointed as directors of the company.

Mr RB Gouws, having reached the age of 70, will be retiring from the board of directors of the company on 27 November 2013 and is therefore not available for re-election.

3. Ordinary resolution number 3

Re-appointment of external auditors

"Resolved as an ordinary resolution that the company hereby approves the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company, with Ms A du Preez as the designated audit partner."

Note that the Audit Committee has recommended the re-appointment of PricewaterhouseCoopers Inc. as auditors of the company, with Ms A du Preez as the designated audit partner.

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 Ms A du Preez as designated audit partner.

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 asked to consider and approve the appointment of the Audit Committee by way of passing the separate ordinary resolutions set out below:

The board is also satisfied that the proposed members meet the provisions of the Act, that they are independent and therefore recommends their appointment.

Ordinary resolution 4.1

"Resolved as an ordinary resolution that the 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 appointment of Mr SA Muller as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.3

"Resolved as an ordinary resolution that the appointment of Mrs M Vilakazi as a member of the Audit Committee be and is hereby approved with immediate effect."

Ordinary resolution 4.4

"Resolved as an ordinary resolution that the appointment of Mrs F 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, Mr SA Muller, Mrs M Vilakazi and Mrs F Jakoet will be appointed as the Audit Committee of the company.

5. Ordinary resolution number 5

Non-binding advisory vote on the remuneration policy

"Resolved as an ordinary resolution that, as contemplated in King III which requires that the remuneration policy of the company be tabled to shareholders for a non-binding advisory vote, the shareholders approve the remuneration policy of the company (excluding the remuneration of the non-executive directors), which is available on the company's website at www.mmiholdings.com."

Effect of ordinary resolution number 5

If ordinary resolution number 5 is passed as a non-binding advisory vote, the effect will be that the remuneration policy of the company will be approved.

6. Ordinary resolution number 6

Appointment of director or company secretary to implement resolutions

"Resolved as an ordinary resolution that any one director of the company or the company secretary be and is hereby authorised to take such steps, do all such things and sign all such documents as may be necessary or required for the purpose of implementing the ordinary and special resolutions proposed and passed at this meeting."

Effect of ordinary resolution number 6

If ordinary resolution number 6 is passed, the effect will be that any director of the company or the company secretary will be authorised to attend to the necessary to implement the resolutions and to sign all documentation required to record the ordinary and special resolutions.

7. Special resolution number 1

Approval of directors' remuneration

In compliance with the provisions of section 66(9) of the Companies Act, the shareholders are required to approve the remuneration 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 special resolution number 1 below. 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 Remco approved an increase of 6.5% overall (to the fees approved at the previous AGM) in respect of the non-executive director's fees. The proposed directors' fees will be adjusted on an annual basis.

"Resolved as a special resolution that non-executive directors of the company shall be paid fees for services rendered, in accordance with the scale of remuneration set out below with effect from 1 October 2013, and such scale of remuneration shall be valid until the company's next AGM:

Chairperson of the board	R1 139 550
Deputy chairperson of the board	R569 800
Board member	R410 000
Chairperson of Audit Committee	R341 850
Member	R170 400
Chairperson of Actuarial Committee	R284 350
Member	R170 400
Chairperson of Remuneration Committee	R284 350
Member	R141 650
Chairperson of Risk and Compliance Committee	R284 350
Member	R170 400
Chairperson of Balance Sheet Management Committee	R227 910
Member	R170 400
Chairperson of Social, Ethics and Transformation Committee	R227 910
Member	R141 650
Chairperson of Nominations Committee	R170 400
Member	R85 200
Chairperson of Fair Practices Committee	R227 910
Member	R141 650
Ad hoc committee members (hourly)	R3 988
Chairperson of a divisional audit panel	R170 400
Member	R113 900

The revised scale of remuneration will be effective from 1 October 2013 in accordance with company policy. Therefore, the difference (if any) between the remuneration paid to non-executive directors in terms of the scale of fees approved at the company's previous AGM held in 2012 and the scale approved in terms of special resolution number 1 above (ie the shortfall) in the period since 1 October 2013, shall be paid to non-executive directors.

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 approval of shareholders for payment by the company of non-executive directors' remuneration as recommended by the Remuneration Committee and approved by the board 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 remuneration detailed above for the services rendered to the company as directors.

8. Special resolution number 2

General approval to provide financial assistance to related or inter-related entities

It is hereby noted that the company may from time to time provide financial assistance to persons who are related or inter-related (as contemplated in the Companies 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").

In compliance with the requirements of the Companies 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 Companies Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance to affiliates, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the company's Memorandum of Incorporation, the Companies 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 Companies 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 Companies 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 2 will have the effect that the board will have the flexibility, subject to the requirements of the company's Memorandum of Incorporation, the Companies 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.

9. Special resolution number 3

General approval of share buy-back

It is hereby noted that the company and/or its subsidiaries may from time to time acquire securities issued by the company. In this regard, it is proposed that the company renew its general approval for a share buy-back with the following special resolution:

"Resolved as a special resolution that the company hereby approves, by way of a general approval, the repurchase by the company or any of its subsidiaries from time to time of shares issued by the company upon such terms and conditions and in such amounts as the board of the company may from time to time determine, but subject to the provisions of the

memorandum of incorporation and 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 Memorandum of Incorporation.
- 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 20% (twenty percent) of the company's issued shares of that class in any one financial year.
- The board shall, by resolution, authorise the repurchase, confirm that the company has passed the solvency and liquidity test detailed in the Companies Act in relation to the repurchase of securities, and confirm 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.
- A general repurchase of the company's shares shall not be effected before the JSE has received written confirmation from the company's sponsor (the "sponsor"), in terms of paragraph 2.12 of the Listings Requirements, in respect of the directors' working capital statement."

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 and 48 of the Companies 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 the 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 the 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 Companies 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 the 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 the notice.

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 the Listings Requirements and the company's Memorandum of Incorporation, for the acquisition by the company, or any subsidiary, of the company's shares. The passing of special resolution number 3 will have the effect of providing the board with the flexibility, subject to the provisions of the Companies Act and the Listings Requirements, to acquire the company's shares should it be in the interests of the company to do so. This general authority shall be valid until its variation or revocation by special resolution at any subsequent general meeting of the company, provided that the general authority shall not be extended beyond 15 (fifteen) months from the date of approval of this special resolution.

General statements and information

Listings Requirements

In accordance with the Listings Requirements, the following information relating to the matters detailed below can be found on the relevant page/s of the integrated report namely:

- the directors and management of the company – pages 36 to 39 and 44 to 45
- the major shareholders of the company – page 284
- the directors' interests in the company – page 69
- the share capital of the company – page 263

Statement of accuracy of information

The directors, whose names are set out on pages 36 to 39 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information contained in the 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.

Litigation statement

The directors, whose names are given on pages 36 to 39 of the integrated report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the group's financial position.

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 2013 and the date of the notice.

Shareholder identification, proxies and voting

In accordance with the provisions of section 63(1) of the Companies Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.

If you hold certificated shares (ie have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (ie have specifically instructed your CSDP to hold your shares in your own name), then:

- you are entitled to attend and vote at the AGM or, alternatively,
- in accordance with the provisions of section 58 of the Companies 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. The form of proxy must be received at the transfer office of the company, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), by not later than 14:00 on Monday, 25 November 2013, or must be delivered to the company secretary/Link Market Services representative at 54 on Bath Boutique Hotel, 54 Bath Avenue, Rosebank, Johannesburg by no later than 15:00 on 27 November 2013.

Notice of annual general meeting continued

If you hold dematerialised shares (ie have replaced the paper share certificates representing your shares with electronic records of ownership under the JSE's electronic settlement system, Strate Limited ("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), JP Burger (deputy chairman), NAS Kruger (group chief executive officer), FW van Zyl (deputy group chief executive officer), PE Speckmann (group finance director), NDL Motsei (executive), L Crouse, RB Gouws, F Jakoet, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, SE Nxasana, KC Shubane, FJC Truter, BJ van der Ross, JC van Reenen, M Vilakazi.

By order of the board

Maliga Chetty
Group company secretary

30 September 2013

Registered office
268 West Avenue
Centurion
0157

Form of proxy

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration

Twelfth annual general meeting (AGM) to be held at 16:00 on Wednesday, 27 November 2013, at 54 on Bath Boutique Hotel, 54 Bath Avenue, Rosebank, Johannesburg.

I, _____ (full name)

of _____

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, _____ (full name of proxy holder)

of _____

or failing him, 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 Johannesburg on Wednesday, 27 November 2013, at 16:00, as well as at any adjournment of the said meeting.

Signed at _____ on this _____ day of _____ 2013

SIGNATURE _____

Voting instructions

(Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.)

Ordinary resolutions

Nature of resolution		For	Against	Abstain
1	Election of Ms NDL Motsei			
2.1	Re-election of Mr JP Burger			
2.2	Re-election of Mr SA Muller			
2.3	Re-election of Mr JC van Reenen			
2.4	Re-election of Mr PJ Moleketi			
2.5	Re-election of Mrs M Vilakazi			
3	Re-appointment of PricewaterhouseCoopers Inc. as external auditors			
	Appointment of Audit Committee			
4.1	Appointment of Mr FJC Truter			
4.2	Appointment of Mr SA Muller			
4.3	Appointment of Mrs M Vilakazi			
4.4	Appointment of Mrs F Jakoet			
5	Non-binding advisory vote on the remuneration policy			
6	Appointment of director or company secretary to implement ordinary and special resolutions			

Special resolutions

Nature of resolution			For	Against	Abstain
1	Approval of directors' remuneration				
	Position				
	Chairperson of the board	R1 139 550			
	Deputy chairperson of the board	R569 800			
	Board member	R410 000			
	Chairperson of Audit Committee	R341 850			
	Member	R170 400			
	Chairperson of Actuarial Committee	R284 350			
	Member	R170 400			
	Chairperson of Remuneration Committee	R284 350			
	Member	R141 650			
	Chairperson of Risk and Compliance Committee	R284 350			
	Member	R170 400			
	Chairperson of Balance Sheet Management Committee	R227 910			
	Member	R170 400			
	Chairperson of Social, Ethics and Transformation Committee	R227 910			
	Member	R141 650			
	Chairperson of Nominations Committee	R170 400			
	Member	R85 200			
	Chairperson of Fair Practices Committee	R227 910			
	Member	R141 650			
	Ad hoc committee members (hourly)	R3 988			
	Chairperson of a divisional audit panel	R170 400			
	Member	R113 900			
2	General approval to provide financial assistance to related or inter-related entities				
3	General approval of share buy-back				

Notes

1. The directors of the company determined that the record date for the purpose of determining which shareholders of the company are entitled to receive the notice of AGM was Friday, 20 September 2013, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 22 November 2013. Accordingly, only shareholders who are registered in the register of members of the company on Friday, 22 November 2013, will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote will therefore be Friday, 15 November 2013.
2. Proxies must be lodged at the company's transfer office, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), so as to be received by not later than 14:00 on Monday, 25 November 2013, or must be delivered to the company secretary/Link Market Services representative at 54 on Bath Boutique Hotel, 54 Bath Avenue, Rosebank, Johannesburg by no later than 15:00 on 27 November 2013.
3. In accordance with the provisions of section 58 of the Companies Act, 71 of 2008 (the "Companies Act"), shareholders have the right to be represented by proxy at shareholder meetings. A member may appoint one or more persons of his own choice as his 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 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 annual general meeting be proposed, the proxy shall be entitled to vote as he 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 Companies Act, for which purpose a duly certified copy of the resolution appointing such a representative should be lodged with the company's transfer 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 Companies 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, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so. In this regard, telephone-conferencing facilities will be made available at Momentum Building, 268 West Avenue, Centurion and at Parc du Cap, 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 Centurion or Bellville location by written notice delivered to the company, at the address detailed hereunder, by no later than Wednesday, 20 November 2013. The abovementioned facilities will only be made available on the date of the AGM if you have notified the company on/before 20 November 2013 that you intend to participate in the AGM by electronic means from Centurion or Bellville. Should you fail to notify the company timeously of your intention, 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