MMI GROUP LIMITED ANNUAL FINANCIAL STATEMENTS

30 June 2015

MMI GROUP LIMITED

CONTENTS

DIRECTORS' RESPONSIBILITY AND APPROVAL

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

To enable the directors to meet these responsibilities:

- The company financial statements are prepared by management;
- 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 actuary and the management of the company to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the statutory actuary of the company have unrestricted access to these committees.

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

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, and the 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 company will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 4.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the board of directors on 8 September 2015 and are signed on its behalf by:

JJ Njeke	**NAS Kruger**
Chairman	*Chief executive officer*
Centurion, 8 September 2015	Centurion, 8 September 2015

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2015 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.

M Chetty
Company secretary
Centurion, 8 September 2015

CERTIFICATE BY THE STATUTORY ACTUARY

Financial position of MMI Group Limited

I hereby certify that:

- The valuation on the Statutory basis of MMI Group Limited as at 30 June 2015, the results of which are summarised in the Statement of Actuarial Values of Assets and Liabilities, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes; and
- Assets exceeded liabilities plus the Capital Adequacy Requirements at the valuation date; and
- The company met the FSB's asset spreading requirements of the Long Term Insurance Act at the valuation date; and
- In my opinion the company is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financially soundness includes meeting the asset spreading requirements as prescribed by the Long Term Insurance Act.

CT van Zyl
BSc (Hons) FASSA FIA
Statutory actuary
Centurion, 8 September 2015

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2015. The Audit Committee of MMI Holdings Ltd (MMI), the company's ultimate holding company, acts as the audit committee for the company. The Audit Committee is an independent statutory committee appointed by the shareholders.

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 combined assurance forums. The Audit Committee has terms of reference, which were approved by the board. The terms of reference, including roles and responsibilities, were aligned with the requirements of King III, 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 in the MMI Holdings group integrated report.

External audit
The Audit Committee is satisfied with the independence and objectivity of the external auditor in accordance with section 94(8) of the Companies Act, 2008, which includes consideration of the auditor's previous appointments, the extent of other work undertaken, and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditor that internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Mr Andrew Taylor as the designated auditor responsible for performing the function of auditor for the 2015 year for the group.

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. The MMI chief audit executive position was vacant during the financial year under review. The group finance director has managed this portfolio in an acting capacity.

Internal financial controls (IFC)
Nothing has come to the attention of the Audit Committee to indicate a material breakdown in the IFC during the financial year.

Governance of risk
The board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance Committee. The chairperson of the Risk, Capital and Compliance Committee is a member of the Audit Committee and likewise, the chairman of the Audit Committee is a member of the Risk, Capital and Compliance Committee to ensure that information relevant to these committees is transferred effectively. The Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting.

Financial statements
The Audit Committee has reviewed the financial statements of the company for the year ended 30 June 2015 and submits that management presented an appropriate view of the company's position and performance. The Audit Committee considers that the company's accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards (IFRS).

Going concern
The Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and made a recommendation to the board in accordance with this assessment.

RJC Truter
Chairman of the Audit Committee
Centurion, 8 September 2015

INDEPENDENT AUDITOR'S REPORT

to the shareholders of MMI Group Limited

We have audited the financial statements of MMI Group Limited set out on pages 18 to 148 and Annexure C, which comprise the statement of financial position as at 30 June 2015, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of 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 financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of MMI Group Limited as at 30 June 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2015, we have read the Directors' Report, the Report of the Audit Committee, Statement of Actuarial Values of Assets and Liabilities and the Certificate by the 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.

Other matter

The supplementary information set out on pages 9 to 14 and 149 to 155, does not form part of the financial statements and is presented as additional information. We have not audited these schedules and accordingly we do not express an opinion thereon.

PricewaterhouseCoopers

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor
Sunninghill, 8 September 2015

DEFINITIONS

Adjusted net worth (ANW)
The adjusted net worth 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 annual premium equivalent 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)
Bonus stabilisation accounts 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 capital adequacy requirement is a minimum statutory capital requirement for South African life insurance companies that is prescribed in SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

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

- 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 SAP104 – 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 financial assets and liabilities, investment variances and basis and other changes which can be volatile, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business.

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 MMI group integrated report. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the company.

Discretionary margins
In addition to compulsory margins, insurance companies may hold further discretionary margins where the statutory actuary believes that:

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

Discretionary participation feature (DPF)
A discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

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

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

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

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

Financial soundness valuation (FSV)
The financial soundness valuation basis is prescribed by SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers – and uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence. For IFRS reporting purposes, this basis is used for the valuation of insurance contracts and investment contracts with discretionary participation features (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.

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 (PVP). New business profit margin is also expressed as a percentage of annual premium equivalent (APE).

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

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.

DEFINITIONS
(continued)

Present value of future premiums (PVP)
The present value of future premiums 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 has been taken of dividend withholding tax.

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

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

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

Risk discount rate
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 over those policies.

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.

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 company.

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 has been 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.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

Published basis R million	Notes	30 June 2015	30 June 2014
Total assets per company balance sheet	1	**373 276**	**349 441**
Total liabilities per company balance sheet	2	**356 307**	**332 896**
Liabilities under insurance contracts		96 796	98 083
Liabilities under investment contracts		233 072	215 138
Current and other liabilities		23 119	16 600
Unsecured subordinated debt	3	3 320	3 075
Excess of assets over liabilities		**16 969**	**16 545**

Statutory basis R million		30 June 2015	30 June 2014 (Restated)
Total assets		**365 437**	**342 043**
Total liabilities	2	**349 403**	**326 068**
Actuarial value of policy liabilities		329 024	311 987
Current and other liabilities		20 379	14 081
Excess of assets over liabilities		**16 034**	**15 975**
Capital adequacy requirement (CAR)		5 810	5 545
Ratio of excess of assets over liabilities to CAR		2,8	2,9
Dividends approved by Board after 30 June		1 580	2 517
Excess of assets over liabilities after approved dividends		14 454	13 458
Ratio of excess of assets over liabilities to CAR after approved dividends		2,5	2,4

The prior year restatements reflect the re-statement of inadmissible assets.

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MMI GROUP LIMITED AS AT 30 JUNE 2015

1. **VALUE OF ASSETS**

   The value of the assets on the published reporting basis is determined according to the accounting policies as set out on pages 23 to 46. Equity investments in subsidiaries are included in the balance sheet at fair value.

2. **VALUE OF LIABILITIES**

   The liability valuation methodology and assumptions under the published reporting basis are set out in the accounting policies and in note 17 to the financial statements.

3. **UNSECURED SUBORDINATED DEBT**

   The unsecured subordinated debt is not reflected as a liability when determining the excess of assets over liabilities on the statutory basis as it is regarded as capital for statutory purposes. R750m of additional subordinated debt was raised on 1 December 2014, and R500m of existing subordinated debt was redeemed on 15 December 2014.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

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

R million	Notes	30 June 2015	30 June 2014 (Restated)
Excess of assets over liabilities on the published reporting basis		**16 969**	**16 545**
Difference in policy liabilities (net of deferred tax impact)		520	788
Deferred acquisition costs and deferred revenue liabilities (net of deferred tax impact)		(1 196)	(1 070)
Excess of fair value over net asset value of subsidiaries		(1 453)	(918)
Impairment of subsidiaries on the statutory basis (intangibles and capital requirements)		(1 210)	(1 387)
Intangibles (net of deferred tax impact) and other inadmissible assets		(916)	(1 058)
Unsecured subordinated debt		3 320	3 075
Excess of assets over liabilities on the statutory basis	1	**16 034**	**15 975**

1. The reinsurance assets and liabilities netting off in reconciliation above amounted to R1 597m (June 2014: R1 661m).

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

R million	30 June 2015	30 June 2014
Excess of assets over liabilities at end of the year	16 969	16 545
Excess of assets over liabilities at beginning of the year	16 545	16 329
Change in excess of assets over liabilities over the year	**424**	**216**

R million	Notes	30 June 2015	30 June 2014
Operating profit (excluding basis changes)	5.1	2 647	2 443
Basis changes	5.2	(233)	(318)
Investment return on excess	5.3	796	1 117
Attributable earnings		**3 210**	**3 242**
Revaluation of investments in subsidiaries		717	60
Revaluation of owner occupied buildings to fair value		124	56
Adjustments to defined benefit pension funds		(17)	98
Revaluation of available-for-sale investments		0	(2)
Income tax relating to items that will not be reclassified		(30)	(11)
Dividends paid		(3 580)	(3 227)
Change in excess of assets over liabilities		**424**	**216**

Notes:

5.1 Operating profit includes expected returns and capital releases on explicit discretionary margins. MMI Group Limited holds explicit discretionary margins (in addition to discretionary margins implicit in policy liabilities) that serve as a buffer against the impact of market fluctuations on the assets backing those fixed liabilities that cannot be perfectly matched and to provide temporary protection in case of a severe fall in the market value of assets backing smooth bonus business. Expected investment returns and a portion of the capital amount on these margins have been released to earnings in the 12 months ended 30 June 2015 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

5.2 The basis changes consist of the following items:

R million	30 June 2015	30 June 2014
Economic assumptions[1]	-	-
Maintenance expense assumptions[2]	(280)	(37)
Mortality and morbidity assumptions[3]	330	129
Termination assumptions[4]	43	(100)
Methodology changes[5] and other items	(326)	(310)
Total	**(233)**	**(318)**

1. Economic assumption changes are included as part of investment experience variances and are transferred to the investment stabilisation account in accordance with accounting policies.
2. Maintenance expense assumptions have been revised based on the budgeted expenses for the year ending 30 June 2016.
3. Assumed mortality rates were weakened following recent experience investigations.
4. Allowance has been made for improved termination experience on risk contracts following experience investigations.
5. Methodology changes include items related to the explicit allowance for reinsurance on legacy business, more accurate modelling of paid-up contracts and an updated allowance for surrender value enhancements on retail business, as well as methodology and data changes on employee benefit annuity business.

5.3 Investment income of R796m includes dividends of R312m (30 June 2014: R295m) received from strategic subsidiaries and an amount of R224m (30 June 2014: R155m) reflected as operating profit in earnings.

6. BONUS STABILISATION ACCOUNTS

The levels of the policyholder bonus stabilisation accounts in the main portfolios have decreased during the 12 months ended 30 June 2015 due to unfavourable performance in investment markets. In considering whether any existing negative bonus stabilisation accounts can be recovered through the under-declaration of bonuses, I have taken into account the asset managers' outlook for the portfolios, expected future cash flows, policyholders' reasonable expectations, as well as my view on the board of directors' expected willingness to declare bonuses below actual investment returns over the next three years.

7. ALLOWANCE FOR EMBEDDED INVESTMENT DERIVATIVES

The statutory liabilities include allowance for embedded investment derivatives, which emanate mainly from guaranteed minimum maturity values and vested bonuses. The liabilities were quantified using a market consistent stochastic model and Monte Carlo simulation techniques in accordance with Actuarial Practice Note APN110 of the Actuarial Society of South Africa. The actuary must use the model to price specified contracts and disclose these prices as part of the statutory actuary's report in terms of APN103. These prices should aim to replicate market prices.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

The following table sets out the prices (% of nominal) and implied volatilities produced by the model on the following put options on the FTSE/JSE Top40 index.

Maturity (years)	Strike	Price (% of nominal) June 2015	Implied volatility (%) June 2015	Price (% of nominal) June 2014	Implied volatility (%) June 2014
1	Spot	5,6	19,4	4,7	16,7
1	80% x spot	1,4	24,1	0,9	21,1
1	Forward*	7,2	18,6	6,2	15,9
5	Spot	7,8	23,2	7,5	22,5
5	1.04^5 x spot	13,9	21,9	13,6	21,2
5	Forward*	16,6	21,4	16,3	20,8
20	Spot	2,7	28,8	2,8	29,8
20	1.04^20 x spot	11,4	27,9	11,5	29,5
20	Forward*	28,0	27,4	30,2	29,5

* Forward = Spot x e^((risk-free interest rate for maturity at time T less expected dividend yield) x term)

The put price (% of nominal) and implied volatility on an underlying index constructed as 60% FTSE/JSE Top40 and 40% ALBI, with annual rebalancing to these weights, is shown below.

Maturity (years)	Strike	Put Price (% of nominal) June 2015	Implied volatility (%) June 2015	Put Price (% of nominal) June 2014	Implied volatility (%) June 2014
5	1.04^5 x spot	6,3	13,7	6,2	13,2

The price of a 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate, which pays if the 5-year forward rate at the time of maturity (in 20 years) is lower than this strike, is shown below.

Maturity (years)	Strike	Price (% of nominal) June 2015	Price (% of nominal) June 2014
20	5-year forward rate in 20 years	0,38	0,39

The zero coupon yield curve used to calibrate the market consistent asset model is shown below. The yield curve was derived from mid swap rates at 30 June 2015.

Years	Yield June 2015 (%)	Yield June 2014 (%)
1	6,8	6,5
2	7,2	7,0
3	7,6	7,4
4	7,8	7,7
5	8,0	7,9
10	8,7	8,7
15	9,2	9,3
20	9,6	9,8
25	9,7	10,0
30	9,8	10,1
35	9,8	10,1
40	9,8	10,0

8. **CAPITAL ADEQUACY REQUIREMENT**

The capital adequacy requirement is necessary to provide a cushion against the impact of possible adverse deviations in future experience from that assumed in the financial soundness valuation.

The capital adequacy requirement, determined in accordance with the standard of actuarial practice SAP104 of the Actuarial Society of South Africa, was calculated as R5 810m (30 June 2014: R5 545m).

The excess of assets over liabilities on the statutory basis is sufficient to cover the capital adequacy requirement 2,8 times (30 June 2014: 2,9 times).

The ordinary capital adequacy requirement (OCAR) exceeded the termination capital adequacy requirement (TCAR) and thus the capital adequacy requirement has been based on the OCAR.

For purposes of grossing up the intermediate ordinary capital adequacy requirement (IOCAR) to determine the OCAR, it was assumed that the assets backing the capital adequacy requirement are invested in cash or near-cash.

In accordance with actuarial practice note APN110 of the Actuarial Society of South Africa, allowance has also been made in the capital adequacy requirement for the potential detrimental impact of minimum investment return guarantees.

In determining the investment resilience capital adequacy requirement, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with a 25% decrease (30 June 2014: 25% decrease) in fixed-interest yields would occur immediately.

Following the transfer of business from Metropolitan Life to MMI Group Limited, the Board is required to maintain differences in management action philosophies between the two companies' respective policyholders. Management action are listed separately for each of the books below, as required by the conditions imposed by the court.

Ex-Momentum business

- Bonuses on the smoothed bonus business will be reduced by an average of 4,6% (4,6% at June 2014) per year relative to expected investment return for three years.
- No investment CAR is held in respect of ring-fenced conventional with profit funds (ex-Southern and ex-Sage) where it is assumed that, following an adverse CAR event, terminal bonuses payable to policyholders will be reduced.
- Momentum changed its stabilisation practice from 1 July 2012 to no longer stabilise retrospective investment experience to the Investment Stabilisation Reserve (an explicit discretionary margin). A consequence of this change is that the negative impact on shareholder fees in CAR resilience stresses is no longer automatically offset by a release of the Investment Stabilisation Reserve. While similar in nature to a management action allowing for the release of discretionary margins, this release occurred automatically as a result of application of the accounting policy. This is now allowed for as an explicit management action.
- No removal of non-vested bonuses will be necessary to support policyholder bonus stabilisation accounts following a CAR event.

Ex-Metropolitan business

- Bonuses will be reduced by approximately 3,8% on smoothed bonus business and 4,3% on conventional with-profit business over the next three years with the impact limited to the total possible under-declaration based on factors such as expected future returns and bonus declarations.
- Removal of non-vesting bonuses (including undeclared terminal bonuses), with the impact limited to be no more than 10% of policyholder funds of the affected products. The impact of including this management action reduced the CAR by R1,1b (30 June 2014: R546m).
- Any actions not completely used as described above are used as required to reduce the component of the credit risk CAR which is included in the resilience CAR.
- The above actions (bonus under-declaration and bonus removal) are all assumed to be available to offset the impact of the credit risk CAR which is calculated independently of the resilience CAR. I.e. the resilience event is not assumed to have occurred when assessing the availability of any actions to offset this part of the credit risk.

The management actions described above include the management actions assumed in the calculation of the liabilities, i.e. the actions necessary to eliminate any current negative bonus stabilisation accounts, as well as the additional management actions assumed to be taken following the shock scenarios in the capital adequacy requirement calculation.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

The impact of the additional management actions assumed in the capital adequacy requirement (CAR) is shown below:

R million	30 June 2015	30 June 2014
CAR before management actions	12 327	9 946
Value of management actions	(7 169)	(4 801)
Reduction in future bonuses	(4 588)	(2 648)
Removal of non-vested bonuses	(1 100)	(556)
Reduction in credit risk	(900)	(710)
Release of discretionary margins	(418)	(642)
Management actions on ring-fenced portfolios	(163)	(245)
Diversification impact on management actions	652	400
CAR after management actions	**5 810**	**5 545**

The MMI Group Limited board has approved the assumptions regarding management action in the CAR calculation, and the statutory actuary is satisfied that these actions are likely to be taken if the adverse scenarios were to materialise.

DIRECTORS' REPORT

The directors take pleasure in presenting the audited financial statements of the company, for the year ended 30 June 2015.

NATURE OF ACTIVITIES

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

CORPORATE EVENTS

Listed debt

The company listed new instruments to the total value of R750 million on the JSE Ltd on 1 December 2014. The instruments are unsecured subordinated callable notes. Refer to note 18 for more details. On 15 December 2014, R500 million of unsecured subordinated notes previously issued by the company were redeemed. Refer to note 19 for more details.

PRESENTATION OF FINANCIAL STATEMENTS

The statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee) and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the company have been applied consistently to all periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the company's accounting policies. Such judgement, assumptions and estimates are disclosed on page 47, including changes in estimates that are an integral part of the insurance business.

Reclassifications

The June 2014 results have been restated for certain reclassifications. Refer to page 23 for detail.

Segmental information

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

The company operated through the following divisions: Momentum Retail; Metropolitan Retail; Momentum Employee Benefits; Momentum Investments; and Shareholder Capital (which includes the Balance Sheet Management business unit, other support services and growth initiatives).

The company is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 yearend. Appropriate changes in financial reporting will be introduced as the company progresses with the operating model implementation.

CORPORATE GOVERNANCE

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The company had no material capital commitments at 30 June 2015, other than what is disclosed in note 37. The company 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 company are reflected in the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Earnings attributable to equity holders for the year under review were R3 179 million (2014: R3 216 million). Core headline earnings were R3 691 million (2014: R3 178 million) and core headline earnings per share 1 943 cents (2014: 1 673 cents). Refer to note 35 for a reconciliation of earnings to core headline earnings.

SUBSIDIARIES AND ASSOCIATES

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

SHARE CAPITAL

Share issue

There were no changes in the authorised or issued share capital of MMI Group Ltd during the financial year.

Share options

The company awards units to employees as part of cash-settled share-based schemes - refer to note 20.2(e) for more details.

MMI Group Ltd preference shares

The company has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 14.

SHAREHOLDER DIVIDEND

Ordinary share dividend

The following dividends were declared in respect of the current year:

	2015 cents per share	2014 cents per share
Interim – March	527	633
Final – September	833	1 327
	1 360	1 960

On 8 September 2015 a final dividend of 833 cents per ordinary share was declared that resulted in an annual dividend of 1360 cents per share. This final dividend was payable to MMI Holdings Limited on 1 October 2015.

SHAREHOLDERS

MMI Group Limited is a wholly owned subsidiary of MMI Holdings Limited.

DIRECTORATE, SECRETARY AND AUDITOR

The company had the following directors at 30 June 2015:

Mr M Njeke (chairman)	Independent non-executive
Mr J Burger (deputy chairman)	Independent non- executive
Mr N Kruger (chief executive officer)	Executive
Mr M Van der Watt	Executive
Mr E De Waal	Executive
Dr K Nzukuma	Executive
Mr S Schoeman	Executive
Mr F Truter	Independent non-executive
Mr S Jurisich	Independent non-executive
Ms F Jakoet	Independent non-executive
Mr L Von Zeuner	Independent non-executive

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

Mr P Speckmann	Retired 30 June 2015
Dr K Nzukuma	Appointed 1 July 2014
Mr L Von Zeuner	Appointed 1 September 2014
Mr S Schoeman	Appointed 25 November 2014

PricewaterhouseCoopers Inc. will continue in office as auditor in accordance with section 90(6) of the South African Companies Act, 2008. Ms M Chetty will continue in office as company secretary.

DIRECTORS' REPORT

(continued)

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2015 are set out below.

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

	Direct Beneficial '000	Indirect Beneficial '000	Total 2015 '000	Total 2014 '000
Listed				
Executive directors	127	315	442	422
Non-executive directors	56	1 375	1 431	1 431
	183	1 690	1 873	1 853

SPECIAL RESOLUTIONS

Annual General Meeting – 18 November 2014

At the annual general meeting of shareholders of the company held on 18 November 2014 the following special resolutions were approved:

- The board of directors was authorised to repurchase shares issued by the company, subject to the provisions of the Memorandum of Incorporation of the company.
- The 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.

Subordination Agreement – 7 April 2015

On 7 April 2015 the following special resolution was approved:

- The company was authorised to provide financial assistance to MMI Strategic Investments (Pty) Ltd in accordance with the Subordination Agreement entered into between the company, MMI Strategic Investments (Pty) Ltd and FirstRand Bank Ltd.

BORROWING POWERS

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

EVENTS AFTER YEAR-END

On 6 August 2015 the company issued listed new instruments to the value of R1.25 billion on the JSE Limited and will be redeeming R1 billion of the existing issued subordinated debt that becomes callable during September 2015. The newly issued instruments are unsecured subordinated callable notes.

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

STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	2015 Rm	Restated 2014 Rm	Restated 1 July 2013 Rm	Notes
ASSETS				
Intangible assets	**2 843**	2 806	2 753	1
Owner-occupied properties	**1 478**	1 373	1 240	2
Property and equipment	**140**	131	154	3
Investment properties	**6 650**	4 797	4 511	4
Interest in subsidiary companies	**48 456**	51 633	40 994	5
Employee benefit assets	**404**	408	328	20.1
Financial instruments				
Securities designated at fair value through income	**269 038**	247 732	218 347	6.1
Investments in associates designated at fair value through income	**17 935**	10 575	16 469	6.2
Derivative financial instruments	**1 967**	2 253	3 111	6.3
Available-for-sale	**8**	7	882	6.4
Loans and receivables	**6 768**	7 505	7 277	7
Reinsurance contracts	**1 597**	1 661	1 609	8
Insurance and other receivables	**2 693**	2 832	2 493	10
Current income tax assets	**262**	281	-	24.1
Cash and cash equivalents	**13 037**	15 447	11 620	11
Total assets	**373 276**	349 441	311 788	
EQUITY				
Equity attributable to owners of the parent	**16 469**	16 045	15 829	
Share capital	**1 041**	1 041	1 041	12
Other components of equity	**6 596**	5 816	5 917	13
Retained earnings	**8 832**	9 188	8 871	
Preference shares	**500**	500	500	14
Total equity	**16 969**	16 545	16 329	
LIABILITIES				
Insurance contract liabilities				
Long-term insurance contracts	**96 796**	98 083	91 006	15
Financial instruments				
Investment contracts	**233 072**	215 138	180 840	16
- with discretionary participation features (DPF)	**24 643**	24 004	23 801	
- designated at fair value through income	**208 429**	191 134	157 039	
Designated at fair value through income	**12 608**	7 380	8 593	18
Derivative financial instruments	**1 974**	1 638	2 336	6.3
Amortised cost	**-**	502	502	19
Deferred income tax	**1 765**	1 628	1 408	9
Employee benefit obligations	**1 166**	840	1 035	20.2
Other payables	**8 926**	7 687	9 546	21
Provisions	**-**	-	71	22
Current income tax liabilities	**-**	-	122	24.1
Total liabilities	**356 307**	332 896	295 459	
Total equity and liabilities	**373 276**	349 441	311 788	

INCOME STATEMENT
For the year ended 30 June 2015

	2015 Rm	2014 Rm	Notes
Insurance premiums	**22 458**	21 184	
Insurance premiums ceded to reinsurers	**(3 476)**	3 111	
Net insurance premiums	**18 982**	18 073	25
Fee income	**3 148**	2 815	26
Investment contracts	**2 097**	1 711	
Trust and fiduciary services	**584**	570	
Other fee income	**467**	534	
Investment income	**12 705**	11 839	27
Net realised and fair value gains	**13 437**	39 540	28
Net income	**48 272**	72 267	
Insurance benefits and claims	**21 762**	20 830	
Insurance claims recovered from reinsurers	**(1 944)**	(1 534)	
Net insurance benefits and claims	**19 818**	19 296	29
Change in actuarial liabilities and related reinsurance	**(586)**	7 276	
Change in insurance contract liabilities	**(1 289)**	7 077	15
Change in investment contracts with DPF liabilities	**639**	203	16
Change in reinsurance contracts	**64**	(4)	8
Fair value adjustments on investment contract liabilities	**15 579**	32 221	16
Depreciation, amortisation and impairment expenses	**176**	170	30
Employee benefit expenses	**3 172**	2 940	31
Sales remuneration	**3 101**	2 970	32
Other expenses	**1 913**	1 956	33
Expenses	**43 173**	66 829	
Results of operations	**5 099**	5 438	
Finance costs	**(566)**	(375)	34
Profit before tax	**4 533**	5 063	
Income tax expense	**(1 323)**	1 820	24.2
Earnings for year	**3 210**	3 243	
Attributable to:			
Owners of the parent	**3 179**	3 216	35
MMI Group Ltd preference shares	**31**	27	
	3 210	3 243	
Basic earnings per ordinary share (cents)	**1 673**	1 693	

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	2015 Rm	2014 Rm	Notes
Earnings for year	3 210	3 243	
Other comprehensive income, net of tax	794	201	
Items that may subsequently be reclassified to income	717	58	
Revaluation of subsidiaries	717	60	13
Revaluation of available-for-sale investments	-	(2)	13
Items that will not be reclassified to income	77	143	
Land and buildings revaluation	124	56	13
Remeasurements			
Metropolitan Staff Pension Fund	(7)	107	
Other	(10)	(9)	
Income tax relating to items that will not be reclassified	(30)	(11)	13
Total comprehensive income for year	4 004	3 444	
Total comprehensive income attributable to:			
Owners of the parent	3 973	3,417	
MMI Group Ltd preference shares	31	27	
	4 004	3 444	

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Share capital	Share premium	Other reserves	Retained earnings	Total attributable to owners of the parent	Preference shares	Total equity	Notes
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Balance at 1 July 2013	9	1 032	5 917	8 871	15 829	500	16 329	
Total comprehensive income	-	-	200	3 216	3 416	27	3 443	
Income statement	-	-	-	3 216	3 216	27	3 243	
Other comprehensive income	-	-	200	-	200	-	200	
Dividend paid	-	-	-	(3 200)	(3 200)	(27)	(3 227)	
Transfer to retained earnings	-	-	(301)	301	-	-	-	
Balance at 1 July 2014	**9**	**1 032**	**5 816**	**9 188**	**16 045**	**500**	**16 545**	
Total comprehensive income	-	-	794	3 179	3 973	31	4 004	
Income statement	-	-	-	3 179	3 179	31	3 210	
Other comprehensive income	-	-	794	-	794	-	794	
Dividend paid	-	-	-	(3 549)	(3 549)	(31)	(3 580)	
Transfer to retained earnings	-	-	(14)	14	-	-	-	13
Balance at 30 June 2015	**9**	**1 032**	**6 596**	**8 832**	**16 469**	**500**	**16 969**	

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	2015 Rm	2014 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(13 774)**	(1 458)	36.1
Interest received	**9 186**	8 221	
Dividends received	**2 939**	3 056	
Income tax paid	**(1 197)**	(2 014)	36.2
Interest paid	**(566)**	(375)	36.3
Net cash (out)/inflow from operating activities	**(3 412)**	7 430	
Cash flow from investing activities			
Additional investment in subsidiary	**(316)**	-	
Disposal of subsidiary	**74**	-	
Purchase of owner-occupied properties	**14**	(3)	
Purchase of investment properties	**(132)**	-	
Disposal of investment properties	**42**	-	
Purchase of property and equipment	**(90)**	64	
Disposal of property and equipment	**-**	6	
Purchase of intangible assets	**(96)**	-	
Net cash (out)/inflow from investing activities	**(504)**	(61)	
Cash flow from financing activities			
Increase / (Decrease) in financial liabilities at fair value through income	**4 712**	(1 213)	
Dividend paid to equity holders	**(3 175)**	(2 302)	
Preference share dividends paid	**(31)**	(27)	
Net cash in/(outflow) from financing activities	**1 506**	(3 542)	
Net cash flow	**(2 410)**	3 827	
Cash resources and funds on deposit at beginning	**15 447**	11 620	
Cash resources and funds on deposit at end	**13 037**	15 447	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**13 037**	15 447	11
	13 037	15 447	

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) and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- owner-occupied and investment properties
- investment in associates 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 DPF and reinsurance contracts valued using the *financial soundness valuation* basis as set out in SAP104 – 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 principle accounting policies applied in the preparation of these 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 company's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in a summary on page 47.

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

The preparation of the company's results was supervised by Leon Basson CA (SA) and have been audited by PricewaterhouseCoopers Inc in compliance with the requirements of the Companies Act of South Africa.

Reclassifications

The June 2014 results have been restated for the following reclassification:

• An adjustment to indirect holdings in managed collective investment scheme funds required a restatement to the previously reported June 2014 results. As a result the June 2014 interest in subsidiary companies decreased by R3 903 million and investments in associates designated at fair value through income increased by R3 903 million.

This reclassification had no impact on the current or prior year reported earnings or headline earnings per share, nor on the net asset value or net cash flow.

Published standards, amendments and interpretations effective for the financial period ended 30 June 2015
The following published standards are mandatory for the company's accounting period beginning on or after 1 July 2014 and have been implemented in accordance with the transitional provisions of these standards:

Title	Description
IFRS 10, IFRS 12 and IAS 27 (Amendments) - Investment entities	The amendment to IFRS 10 defines an investment entity and introduces an exception from consolidation. The amendments to IFRS 12 also introduce disclosures that an investment entity needs to make.
IAS 19 (Amendment) – Employee benefits	This amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. The amendment will allow many entities to continue accounting for employee contributions using their existing accounting policy, rather than spreading them over the employees' working lives. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits; that means either in accordance with the formula in the pension plan, or, where the plan provides a materially higher level of benefit for service in later years, on a straight line basis. The benefit of employee contributions linked to the length of service is recognised in profit or loss over the employee's working life.
IAS 32 (Amendment) - Offsetting financial assets and financial liabilities	The amendments clarify that the right of set-off must be available today, ie it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances. Master netting agreements where the legal right to offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.
IAS 36 (Amendment) - Recoverable amount disclosures for non-financial assets	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
IAS 39 (Amendment) - Novation of derivatives and continuation of hedge accounting	This amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
IFRIC 21 - Levies	IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation could result in recognition of a liability later than today, particularly in connection with levies that are triggered by circumstances on a specific date.

Annual Improvements 2010-12 cycle

IFRS 2 (Amendment) - Share-based payment	The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.
IFRS 3 (Amendments) - Business combinations	The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32 Financial instruments: Presentation. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.
IFRS 8 (Amendments) - Operating segments	The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
IFRS 13 (Amendment) - Fair value measurement	The basis for conclusions has been amended to clarify that the IASB did not intend to remove the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial.
IAS 16 (Amendment) - Property, plant and equipment and IAS 38 (Amendment) - Intangible assets	Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
IAS 24 (Amendment) - Related party disclosures	The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements 2011-13 cycle

IFRS 1 (Amendment) - First-time adoption of International Financial Reporting Standards	The basis for conclusions has been amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided that the same standard is applied in all periods presented.
IFRS 3 (Amendment) - Business combinations	The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangements under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
IFRS 13 (Amendment) - Fair value measurement	The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
IAS 40 (Amendment) - Investment property	The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

These amendments had no financial impact on the company's financial statements.

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

Effective annual periods beginning	Title
1 January 2016	IFRS 10 and IAS 28 (Amendments) - Sale or contribution of assets between an investor and its associate or joint venture
1 January 2016	IFRS 10, IFRS 12 and IAS 28 Investment entities (Amendments) - Applying the consolidation exception
1 January 2016	IFRS 11 (Amendments) - Joint arrangements
1 January 2016	IFRS 14 - Regulatory deferral accounts
1 January 2016	IAS 1 (Amendments) - Disclosure initiative
1 January 2016	IAS 16 and IAS 38 (Amendments) - Clarification of acceptable methods of depreciation and amortisation
1 January 2016	IAS 16 and IAS 41 (Amendments) - Agriculture: Bearer plants (Not applicable)
1 January 2016	IAS 27 (Amendment) - Equity method in separate financial statements
1 January 2017	IFRS 15 - Revenue from contracts with customers
1 January 2018	IFRS 9 - Financial instruments
Annual improvements 2012-14 cycle	
1 January 2016	IFRS 5 - Non-current assets held for sale and discontinued operations
1 January 2016	IFRS 7 - Financial instruments: Disclosures
1 January 2016	IAS 19 - Employee benefits
1 January 2016	IAS 34 - Interim financial reporting (Not applicable)

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

CONSOLIDATION

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are deconsolidated 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 company. Separate disclosure is made of non-controlling interests. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Acquisition of subsidiaries or businesses under common control

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

Investments in subsidiaries designated at fair value through income

Investments in subsidiaries backing policyholder liabilities have been designated at fair value through income. The fair value movements are recorded in net realised and fair value gains in the income statement. Refer to the financial instruments section below for the initial and subsequent measurement and the treatment of transactional costs of financial assets designated at fair value through income.

Investments in subsidiaries classified as available-for-sale

Investments in subsidiaries that do not back policyholder liabilities have been classified as available-for-sale. The fair value movements of these investments in subsidiaries are recorded directly against other comprehensive income. Refer to the financial instruments section below for the initial and subsequent measurement and the treatment of transactional costs of financial assets classified as available-for-sale.

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

Disposal of investments in subsidiaries
The disposal of investments in subsidiaries designated at fair value through income results in a zero profit or loss on disposal of subsidiary. When investments in subsidiaries classified as available-for-sale are sold, the cumulative amount that was accounted for against other comprehensive income is disclosed under net realised and fair value gains in the income statement in the year the investment is sold.

Transactions with non-controlling interest shareholders
Transactions with non-controlling interest shareholders are treated as transactions with equity participants of the company. Disposals to non-controlling interest shareholders result in gains and losses for the company that are recorded in equity. Any difference between any consideration paid and the relevant share acquired 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 company has significant influence but not control. The company'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 company.

Profits and losses resulting from transactions between group companies are recognised in the company's results to the extent of the company'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 associated 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 company's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the company'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 company ceases to have significant influence over the associate. When significant influence is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement.

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

Impairment
Under the equity method, the carrying value is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount. When the company's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised unless the company has incurred obligations or made payments on behalf of the associate. The company resumes equity accounting only after its share of the profits equals the share of losses not recognised.

FOREIGN CURRENCIES

Functional and presentation currency

The financial statements are presented in South African rand (the presentation currency), which is the functional currency of the company.

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 company 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.

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

Value of in-force business acquired

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

Measurement

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

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

Impairment

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

Customer relationships

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

Measurement

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

Impairment

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

Deferred acquisition costs (DAC)

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

Impairment

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

Computer software

Recognition and measurement

Acquired computer software

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

Internally developed computer software

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

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

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

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

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

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

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

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

Depreciation
Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over 5 to 20 years. 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

Improvements to leasehold properties

Measurement

Improvements to leasehold properties are measured at cost and depreciated over the shorter of their respective lease periods and estimated useful lives.

Impairment

Improvements to leasehold properties 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.

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 company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

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

Furniture and fittings	3 - 5 years
Computer equipment	3 years
Motor vehicles	5 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

Completed properties

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the company.

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 on an annual basis 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 company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

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

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

Transfers to and from investment properties

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

Properties held under operating leases

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

Gains and losses

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

FINANCIAL ASSETS

Classification

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

Impairment of financial assets

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

  Equity investments

  At each reporting date the company 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 company 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 company 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 was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

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

Derecognition of financial assets

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

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

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. The 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.

Scrip lending

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

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 based on a valuation technique whose variables include only observable market data.

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

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

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

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

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, 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.

Derivatives that do not qualify for hedge accounting

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

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

Share capital is classified as equity where the company has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the company are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity.

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.

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

Insurance contracts

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

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

Insurance 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.

Investment contracts

Investment contracts are those where only financial risk is transferred.

Contracts with discretionary participation features

The company 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 SAP104 – 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, 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 APN110 – 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, in respect of certain policies, are entitled to a partial surrender, 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 SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

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

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

Embedded derivatives

The company does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present value of business acquired (VOBA), is adequate in relation to the best-estimate future cash flows liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

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

Reinsurance liabilities are amounts payable to registered reinsurers, in terms of a reinsurance agreement and include premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.

Impairment of reinsurance assets

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

Insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

Investment contracts

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

Measurement

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

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

For investment contracts, 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 company'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 company becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.

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

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

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

A deferred revenue liability (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 accounting policies.

Amounts received and claims incurred

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

FINANCIAL LIABILITIES

Recognition and measurement

The company classifies its financial liabilities into the following categories:

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

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

- **Financial liabilities at fair value through income**
  This category has two sub-categories: financial liabilities held for trading and those designated at fair value through income at inception.
  A financial liability is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

  Financial liabilities are designated at fair value through income at inception if they are:
  - eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  - managed, with their performance being evaluated on a fair value basis; or
  - significant embedded derivatives that clearly require bifurcation.

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

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

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

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

Financial liabilities 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 and carry positions (refer below), are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Interest on the callable notes and carry positions are disclosed separately as finance costs using the effective interest rate method.

Carry positions

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

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

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

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

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

Financial liabilities at amortised cost

Financial liabilities 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.

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 company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

CURRENT TAXATION

Measurement

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

Offsetting

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

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 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.

INDIRECT TAXATION

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

LEASES: ACCOUNTING BY LESSEE

Operating leases

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

LEASES: ACCOUNTING BY LESSOR

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

PROVISIONS

Provisions are recognised when, as a result of past events, the company 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 company 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 company has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The company provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

- **Defined contribution funds**

A defined contribution scheme is a fund under which the company pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- **Defined benefit pension fund**

A defined benefit plan is a pension fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the company. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in other comprehensive income as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets yields a debit balance. In such circumstances, the debit balance recognised as an asset in the company's statement of financial position cannot exceed the present value of any economic benefits available to the company in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the company the rules of the fund are considered.

Post-retirement medical aid obligations

The company provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

Termination benefits

The company recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits at the earlier of the following dates: (a) when the company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Leave pay liability

The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Bonus plans

The company pays performance bonuses to senior employees of the company 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 company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The company operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the company measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

Cash-settled compensation plans

The company recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non market-related vesting conditions. Non market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

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 company'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. 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 revenue 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 revenue when the services are rendered, over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the company are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Other fee income

Other fees received include scrip lending fees which are based on rates determined per contract and are recognised as the service is rendered. Other fee income also includes policy adminstration fees which is 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. Dividend income includes scrip dividends received, irrespective of whether the shares or cash was elected, where it is declared out of retained earnings. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro-rata number of shares; there is no change in economic interest of any investor and there is no economic benefit associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

EXPENSE RECOGNITION

Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

Finance costs

Finance costs are recognised in the income statement, using the *effective interest rate method,* and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the company's executive committee that makes strategic decisions. Refer to segmental report for more details.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

PREPARATION OF FINANCIAL STATEMENTS

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

APPLICATION OF ACCOUNTING POLICIES

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

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

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

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10, the company considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the company or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Provision for deferred and current tax – notes 9 and 24
- Assumptions and estimates of contract holder liabilities – note 17
- Valuation assumptions for financial instruments – note 47

SEGMENTAL REPORT

For the year ended 30 June 2015

Management has determined the operating segments based on the way the business is being managed. The reports used by the chief operating decision-makers, the members of the executive committee, to make strategic decisions reflect this.

The company is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 yearend. Appropriate changes in financial reporting will be introduced as the company progresses with the operating model implementation.

The committee considers the business from both a geographic and product perspective. The operations are segregated into Momentum Retail, Metropolitan Retail, Momentum Employee Benefits, Momentum Investments and Shareholder Capital.

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 retail market in South Africa. Product offering: Best-of-breed and fit-for-purpose wealth creation and preservation, risk (insurance) and savings (income) products, Distribution channel;

- Metropolitan Retail: Operates in the lower to middle income market in South Africa, including their extended families. Product offering: Savings, income generation and income protection (risk) products, Brokers, Wholesale and third party;

- 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, health administration, insurance and investment solutions for employers and retirement funds in large corporate and the small, micro and medium enterprise (SMME) market segments;

- Momentum Investments: Asset manager and multi-manager companies within the MMI group write business on MMI Group Ltd's life licence. This segment also includes some employee costs in respect of employees performing services for the aforementioned asset manager and multi-manager companies;

- Shareholder capital: manages the holding company activities and includes the balance sheet management (BSM) division. 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 other support services and growth initiatives.

The executive committee assesses the performance of the operating segments based on core headline earnings. This measurement basis excludes the effect of net realised and fair value gains, investment variances, basis changes, certain non-recurring items, and the amortisation of intangible assets acquired in business combinations.

A reconciliation of core headline earnings to earnings is provided in note 35.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The adjustments are shown in the 'Reconciling items' column which relates to investment without DPF inflows and outflows included in the segmental split.

SEGMENTAL REPORT
(continued)

2015	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee benefits Rm	Momentum Investments Rm	Shareholder capital Rm	Segmental total Rm	Reconciling items (1) Rm	IFRS total Rm
Revenue								
Net insurance premiums	23 964	6 910	15 412	8 305	-	**54 591**	(35 609)	**18 982**
Recurring premiums	8 333	5 495	8 612	-	-	**22 440**	(8 006)	**14 434**
Single premiums	15 631	1 415	6 800	8 305	-	**32 151**	(27 603)	**4 548**
Fee income	1 884	95	1 055	-	104	**3 138**	10	**3 148**
External fee income	1 884	95	1 055	-	104	**3 138**	10	**3 148**
Expenses								
Net payments to contract holders								
External payments	23 550	4 961	12 247	11 277	1	**52 036**	(32 218)	**19 818**
Other expenses	3 713	1 981	945	(3)	756	**7 392**	970	**8 362**
Sales remuneration	2 024	893	99	-	-	**3 016**	84	**3 100**
Administration expenses	1 689	1 088	846	(3)	714	**4 334**	213	**4 547**
Amortisation, depreciation and impairment	-	-	-	-	40	**40**	-	**40**
Direct property expenses and asset management fees	-	-	-	-	2	**2**	673	**675**
Income tax	746	379	192	-	6	**1 323**	-	**1 323**
Core headline earnings	1 433	701	468	2	1 087	**3 691**	-	**3 691**
Operating profit	1 991	973	650	3	528	**4 145**	-	**4 145**
Tax on operating profit	(558)	(272)	(182)	(1)	(111)	**(1 124)**	-	**(1 124)**
Investment income	-	-	-	-	756	**756**	-	**756**
Tax on investment income	-	-	-	-	(86)	**(86)**	-	**(86)**
Actuarial liabilities	182 812	33 227	75 304	34 420	4 219	**329 982**	(114)	**329 868**

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split.
(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R74 463 million, with no such non-current assets located in other countries.

SEGMENTAL REPORT
(continued)

2014	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee benefits Rm	Momentum Investments Rm	Shareholder capital Rm	Segmental total Rm	Reconciling items (1) Rm	IFRS total Rm
Revenue								
Net insurance premiums	22 485	6 820	15 199	6 262	23	50 789	(32 716)	18 073
Recurring premiums	7 856	5 313	7 927	-	-	21 096	(6 713)	14 383
Single premiums	14 629	1 507	7 272	6 262	23	29 693	(26 003)	3 690
Fee income	1 580	112	920	-	182	2 794	21	2 815
External fee income	1 580	112	920	-	182	2 794	21	2 815
Expenses								
Net payments to contract holders								
External payments	21 169	5 481	11 108	10 823	109	48 690	(29 394)	19 296
Other expenses	3 276	2 164	997	-	485	6 922	1 114	8 036
Sales remuneration	1 852	937	104	-	14	2 907	63	2 970
Administration expenses	1 424	1 227	893	-	430	3 974	189	4 163
Amortisation, depreciation and impairment	-	-	-	-	39	39	-	39
Direct property expenses and asset management fees	-	-	-	-	2	2	862	864
Income tax	921	317	153	-	380	1 771	49	1 820
Core headline earnings	1 287	509	435	-	947	3 178	-	3 178
Operating profit	1 788	707	604	-	173	3 272	-	3 272
Tax on operating profit	(501)	(198)	(169)	-	(45)	(913)	-	(913)
Investment income	-	-	-	-	989	989	-	989
Tax on investment income	-	-	-	-	(170)	(170)	-	(170)
Actuarial liabilities	175 036	32 284	67 603	34 942	3 454	313 319	(98)	313 221

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split.
(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R82 032 million, with no such non-current assets located in other countries.

SEGMENTAL REPORT

(continued)

	2015 Rm	2014 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	**23 550**	21 169
Death and disability claims	**3 729**	3 411
Maturity claims	**7 546**	6 445
Annuities	**4 763**	4 505
Surrenders	**8 518**	7 569
Re-insurance recoveries	**(1 006)**	(761)
Metropolitan Retail	**4 961**	5 481
Death and disability claims	**1 094**	1 049
Maturity claims	**1 664**	2 373
Annuities	**620**	558
Withdrawal benefits	**84**	97
Surrenders	**1 558**	1 503
Re-insurance recoveries	**(59)**	(99)
Momentum Employee benefits	**12 247**	11 108
Death and disability claims	**3 298**	2 948
Maturity claims	**948**	667
Annuities	**1 475**	736
Withdrawal benefits	**4 020**	3 358
Terminations and disinvestments	**2 920**	3 685
Re-insurance recoveries	**(414)**	(286)
Investments - withdrawal benefits	**11 277**	10 823
Shareholder capital claims	**1**	109
Segmental payments to contract holders	**52 036**	48 690
Adjusted for payments to investment contract holders	**(32 218)**	(29 394)
Net insurance benefits and claims (note 29)	**19 818**	19 296

SEGMENTAL REPORT
(continued)

2015 FUNDS RECEIVED FROM CLIENTS	Gross single inflows Rm	Gross recurring inflows Rm	Total gross inflow Rm	Total gross outflow Rm	Total net inflow/ (outflow) Rm
Momentum Retail	15 631	8 333	23 964	(23 550)	414
Metropolitan Retail	1 415	5 495	6 910	(4 961)	1 949
Momentum Employee Benefits	6 800	8 612	15 412	(12 247)	3 165
Momentum Investments	8 305	-	8 305	(11 277)	(2 972)
Shareholder capital	-	-	-	(1)	(1)
Long-term insurance business cash flows	**32 151**	**22 440**	**54 591**	**(52 036)**	**2 555**
Total funds received from clients	**32 151**	**22 440**	**54 591**	**(52 036)**	**2 555**

2014 FUNDS RECEIVED FROM CLIENTS	Gross single inflows Rm	Gross recurring inflows Rm	Total gross inflow Rm	Total gross outflow Rm	Total net inflow/ (outflow) Rm
Momentum Retail	14 629	7 856	22 485	(21 169)	1 316
Metropolitan Retail	1 507	5 313	6 820	(5 481)	1 339
Momentum Employee Benefits	7 272	7 927	15 199	(11 108)	4 091
Momentum Investments	6 262	-	6 262	(10 823)	(4 561)
Shareholder capital	23	-	23	(109)	(86)
Long-term insurance business cash flows	29 693	21 096	50 789	(48 690)	2 099
Total funds received from clients	29 693	21 096	50 789	(48 690)	2 099

	2015 Rm	2014 Rm
1 INTANGIBLE ASSETS		
Goodwill	**40**	40
Value of in-force business acquired	**706**	743
Customer relationships	**13**	16
Deferred acquisition costs	**1 905**	1 906
Computer software	**179**	101
	2 843	2 806
1.1 Goodwill		
Cost	**56**	56
Accumulated impairment	**(16)**	(16)
	40	40
Carrying amount at beginning	**40**	40
Carrying amount at end	**40**	40
Cash generating units (CGU)		
Life books	**40**	40
	40	40

Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. The life book represents the CGU of the life insurance book of:

- Commercial Union Life Association of South Africa Ltd (R40 million), acquired in 1999 (included in the Metropolitan Retail segment)

The recoverable value of this CGU is determined based on a value-in-use calculation. This calculation uses 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. This calculation is dependent on the assumptions disclosed below.

	2015		2014	
Assumptions	**Risk discount rate**	**Income and expense inflation rate**	Risk discount rate	Income and expense inflation rate
Commercial Union Life Association of South Africa Ltd	11%	8%	11%	8%

Impairments

Impairment testing involves the calculation of present value of future profits. No impairment was made.

	2015 Rm	2014 Rm
1.2 Value of in-force business acquired		
Acquisition of insurance and investment contracts with DPF		
Cost	1 040	1 040
Accumulated amortisation	(334)	(297)
Carrying amount	706	743
Carrying amount at beginning	743	781
Amortisation charges	(37)	(38)
Carrying amount at end	706	743
The carrying amount is made up as follows:		
Sage - Shareholder capital segment	706	743
	706	743

As a result of certain insurance contracts acquisitions, the company carries an intangible asset representing the present value of in-force business acquired. R706 million (2014: R743 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 company earnings before tax.

	2015 Rm	2014 Rm
1.3 Customer relationships		
Cost	17	17
Accumulated amortisation	(4)	(1)
Carrying amount	13	16
Carrying amount at beginning	16	-
Additions	-	17
Amortisation charges	(3)	(1)
Carrying amount at end	13	16
The carrying amount is made up as follows:		
Client contracts from Everest Corporate Benefits (Pty) Ltd - Shareholder capital segment	13	16
	13	16

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations relate to the acquisition of client contracts from Everest Corporate Benefits (Pty) Ltd of R13 million (2014: R16 million). This intangible will be fully amortised by 2019.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2015 Rm	2014 Rm
1.4 Deferred acquisition costs		
Cost	**4 115**	3 775
Accumulated amortisation	**(2 210)**	(1 869)
Carrying amount	**1 905**	1 906
Carrying amount at beginning	**1 906**	1 873
Additions	**286**	251
Amortisation charges	**(287)**	(218)
Carrying amount at end	**1 905**	1 906
1.5 Computer software		
Acquired computer software		
Cost	**17**	17
Accumulated amortisation	**(10)**	(5)
Carrying amount	**7**	12
Carrying amount at beginning	**12**	15
Additions	**-**	3
Amortisation charges	**(5)**	(6)
Carrying amount at end	**7**	12
Internally developed computer software		
Cost	**190**	94
Accumulated amortisation	**(18)**	(5)
Carrying amount	**172**	89
Carrying amount at beginning	**89**	44
Additions	**96**	53
Amortisation charges	**(13)**	(8)
Carrying amount at end	**172**	89
Total computer software	**179**	101

Material computer software

The Shareholder Capital segment has computer software of R31.4 million (2014: R32.6 million) which will be fully amortised by 2019.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2015 Rm	2014 Rm
2 OWNER-OCCUPIED PROPERTIES		
Owner-occupied properties - at fair value	**1 478**	1 373
Historical carrying value – cost model	**872**	880
Fair value at beginning	**1 373**	1 240
Additions	**6**	3
Disposals	**(20)**	-
Revaluations	**124**	43
Depreciation charge	**(37)**	(36)
Transfer from investment properties	**32**	123
Fair value at end	**1 478**	1 373

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

Critical accounting estimates and judgements

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

Assumptions	**Base assumption**	**Change in assumption**	**Change in fair value** Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	**8%-11.5%**	**10%**	**115**	**(94)**
Discount rate	**13% - 16%**	**10%**	**75**	**(98)**

Capitalisation and discount rates (2014: 8.55% - 11.5% and 13.5% - 16% respectively) are determined based on a number of factors, including but not limited to the following: the current risk free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the company. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

3 PROPERTY AND EQUIPMENT

Equipment and leasehold improvements

	2015 Rm	2014 Rm
Cost	**339**	258
Accumulated depreciation	**(199)**	(127)
Carrying amount	**140**	131

Equipment comprises furniture and fittings, computer equipment and motor vehicles.

	2015 Rm	2014 Rm
Carrying amount at beginning	**131**	154
Additions	**90**	64
Disposals	**-**	(6)
Depreciation charges	**(81)**	(81)
Carrying amount at end	**140**	131

	2015 Rm	2014 Rm
4 INVESTMENT PROPERTIES		
At 30 June investment properties comprised the following property types:		
Industrial	**302**	218
Shopping malls	**3 417**	3 043
Office buildings	**2 716**	1 356
Hotels	**235**	261
Vacant land	**63**	-
Other	**51**	-
Property at valuation	**6 784**	4 878
Accelerated rental income (note 10)	**(134)**	(81)
	6 650	4 797
Fair value at beginning	**4 797**	4 511
Capitalised subsequent expenditure	**91**	86
Additions	**1 550**	-
Disposals	**(42)**	-
Net gain from fair value adjustments	**340**	346
Change in accelerated rental income	**(54)**	(23)
Transfer to owner-occupied properties	**(32)**	(123)
Fair value at end	**6 650**	4 797

Previously a number of properties were held through a property holding subsidiary (Momentum Property Investments (Pty) Ltd). In the current year these properties were transferred directly onto the MMI Group Limited balance sheet. This transfer was effective 1 April 2015. The corresponding decrease can be seen in the company's investment in Momentum Property Investments (Pty) Ltd (note 5).

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

Critical accounting estimates and judgements
All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2015, amounting to 34% (2014: 47%) of the portfolio for the company. Eris Property Group (Eris) is responsible for the internal valuations of the company. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	**Base assumption**	**Change in assumption**	**Change in fair value** Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	7% - 11%	10%	481	(394)
Discount rate	12.5% - 15.5%	10%	312	(410)

Capitalisation and discount rates (2014: 7% - 11.5% and 12.5% - 15.5% respectively) used reflect the security of the income and covenant of strength from the existing tenants. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

5 INTEREST IN SUBSIDIARY COMPANIES

	Effective % holding		Investment by holding company: Amounts owing by/(to) subsidiaries		Investment by holding company: Company carrying amount		Carrying amount (including loan account)		Nature of business	Country of incorporation
	2015	2014	**2015**	2014	**2015**	Restated 2014	**2015**	2014		
	%	%	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm		
Subsidiaries (directly held):										
Listed										
Collective investment schemes (Annexure A)	**Various**	Various	**-**	-	**45 063**	48 050	**45 063**	48 050	Unit trusts	South Africa
Unlisted										
Momentum Property Investments (Pty) Ltd	**100**	100	**21**	1 453	**(2)**	821	**19**	2 274	Property investments	South Africa
Momentum Life Assurers Ltd	**100**	100	**-**	(36)	**-**	36	**-**	-	Dormant	South Africa
Momentum Wealth (Pty) Ltd	**100**	100	**165**	186	**419**	355	**584**	541	Investment administration	South Africa
Momentum Medical Scheme Administrators (Pty) Ltd	**100**	100	**132**	424	**321**	90	**453**	514	Health administration	South Africa
Momentum Ability Ltd	**100**	100	**-**	-	**69**	68	**69**	68	Long-term insurance	South Africa
Momentum Life Botswana (Pty) Ltd	**100**	100	**-**	-	**49**	45	**49**	45	Long-term insurance	Botswana
Momentum International Multimanagers (Pty) Ltd	**100**	100	**133**	158	**182**	74	**315**	232	Multi-management services	South Africa
Momentum Asset Management (Pty) Ltd	**100**	100	**167**	96	**825**	1 038	**992**	1 134	Asset management	South Africa
Momentum Finance Company (Pty) Ltd	**100**	100	**80**	384	**88**	71	**168**	455	Investment company	South Africa
Momentum Short-term Insurance Ltd	**100**	100	**9**	-	**368**	319	**377**	319	Short-term insurance	South Africa
Gamaphuteng Enterprises (Pty) Ltd	**92**	92	**3**	3	**13**	11	**16**	14	Leasing investment propert	South Africa
Metropolitan Life Properties (Pty) Ltd	**100**	100	**(37)**	(37)	**37**	37	**-**	-	Leasing investment propert	South Africa
Momentum Interactive (Pty) Ltd	**100**	100	**200**	165	**63**	44	**263**	209	Rewards programme	South Africa
Aconcagua 14 Investments (RF) (Pty) Ltd	**100**	100	**7**	7	**269**	253	**276**	260	Property investments	South Africa
Other unlisted investments in subsidiaries	**Various**	Various	**(15)**	(89)	**692**	321	**677**	232	Various	Various
			865	2 714	**48 456**	51 633	**49 321**	54 347		

2014 reclassification

An adjustment to indirect holdings in managed collective investment scheme funds required a restatement to the previously reported June 2014 results. As a result the June 2014 interest in subsidiary companies decreased by R3 903 million and investments in associates designated at fair value through income increased by R3 903 million.

	2015 Rm	2014 Rm
6 FINANCIAL INSTRUMENTS		
6.1 Securities designated at fair value through income		
Equity securities	**58 937**	57 436
Debt securities	**86 035**	74 254
Funds on deposit and other money market instruments	**10 638**	12 681
Unit-linked investments	**113 428**	103 361
	269 038	247 732
Open ended	**173 570**	161 787
Current	**25 941**	23 234
Non-current	**69 527**	62 711
1 to 5	**25 949**	29 403
5 to 10	**13 423**	11 284
> 10 years	**30 155**	22 024
	269 038	247 732

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 40.1 for details of unlisted financial assets.

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

	2015 Rm	2014 Rm
Scrip lending (included in securities designated at fair value through income)		
Carrying value of securities on loan		
Local listed equity securities	**2 157**	2 069

Scrip lending policy

The company is authorised to conduct lending activities as lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. Collateral or credit capital (as is applicable) is maintained at a risk-adjusted level of at least 100% of scrip lent.

Risk and reward of securities

In general risk and reward of securities lent is retained by the lender in that they fully participate in the market movement of their investment and are compensated for any dividend payments and interest.

Collateral

Historically, the company monitored collateral levels on a monthly basis and the status of collateral coverage was reported to the executive balance sheet management committee on a quarterly basis. Collateral accepted for securities lending arrangements was not used for any purpose other than being held as security for the arrangements and was only used in the event of a default by the borrowers. The borrowers retained all voting rights and rights to income attaching to the pledged collateral securities (other than cash). No collateral was held in the current and prior financial years.

	2015 Rm	Restated 2014 Rm
6.2 Investments in associates designated at fair value through income		
Collective investment schemes (refer to Annexure B)	**17 935**	10 575

2014 reclassification

An adjustment to indirect holdings in managed collective investment scheme funds required a restatement to the previously reported June 2014 results. As a result the June 2014 interest in subsidiary companies decreased by R3 903 million and investments in associates designated at fair value through income increased by R3 903 million.

	2015 Assets Rm	2015 Liabilities Rm	2014 Assets Rm	2014 Liabilities Rm
6.3 Derivative financial instruments				
Held for trading	**1 961**	**1 974**	2 238	1 638
Held for hedging purposes	**6**	**-**	15	-
Fair value hedges	**6**	**-**	15	-
	1 967	**1 974**	2 253	1 638
Current	**518**	**193**	711	98
Non-current	**1 449**	**1 781**	1 542	1 540
	1 967	**1 974**	2 253	1 638

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

Under no circumstances are derivative contracts entered into for speculative purposes. Where derivative financial instruments do not meet the hedge accounting criteria in IAS 39 - Financial instruments: recognition and measurement - they are classified and accounted for as instruments 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2015 Effective exposure Rm	2015 Assets Rm	2015 Liabilities Rm	2014 Effective exposure Rm	2014 Assets Rm	2014 Liabilities Rm
Derivatives held for trading						
Equity derivatives		84	61		168	137
Options, OTC	349	67	61	(103)	147	137
Options, exchange traded	(409)	9	-	(1 003)	2	-
Futures, exchange traded	294	-	-	133	-	-
Swaps, OTC	8	8	-	19	19	-
Interest rate derivatives		1 798	1 119		2 060	1 215
Options, OTC	(200)	12	-	-	-	-
Swaps, OTC	665	1 784	1 119	857	2 060	1 215
Forward rate agreement, OTC	2	2	-	-	-	-
Bonds		68	25		8	-
Options, exchange traded	9	-	-	34	-	-
Futures, OTC	(1 483)	4	25	327	8	-
Futures, exchange traded	867	64	-	2 055	-	-
Credit derivatives		4	7		2	-
Swaps, OTC	(3)	4	7	2	2	-
Currency derivatives		7	762		-	286
Futures, OTC	7	7	-	(131)	-	-
Swaps, OTC	(698)	-	698	(286)	-	286
Futures, exchange traded	(411)	-	64	-	-	-
Derivatives held for trading	(1 003)	1 961	1 974	1 904	2 238	1 638
Derivatives held for hedging purposes						
Interest rate swaps	6	6	-	15	15	-
Total derivatives financial instruments		1 967	1 974		2 253	1 638

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

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

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

Fair value hedges

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

Hedge accounting has been applied to the 2006 callable note as follows:

	2015	2014
	Rm	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	**5**	(18)
2006 Subordinated callable notes	**3**	17
Net realised and fair value gains/(losses)	**8**	(1)

The table above discloses the full fair value movement on the interest rate swap and the subordinated call notes from 1 July to 30 June.

Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
On hedging instrument	**(8)**	(16)
On hedged items attributable to the hedged risk: 2006 callable notes	**13**	21
Ineffective portion recognised in Net realised and fair value gains/(losses)	**5**	5

The table above discloses the fair value movement relating to the interest rate risk component which has been hedged.

	2015 Rm	2014 Rm
6.4 Available-for-sale		
Equity securities		
Local listed	**4**	3
Unlisted	**4**	4
	8	7
Open ended	**8**	7
	8	7

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.

7 LOANS AND RECEIVABLES

	2015 Rm	2014 Rm
Accounts receivable	**1 040**	1 168
Less provision for impairment	**(15)**	(19)
Loans	**5 743**	6 356
Loans to related parties		
Staff loans	**27**	25
Loans due from subsidiaries and fellow MMI Holdings Ltd subsidiaries	**2 593**	4 546
Other related party loans	**9**	15
Due from agents, brokers and intermediaries	**425**	379
Less provision for impairment	**(271)**	(210)
Policy loans	**1 195**	1 188
Unsettled trades	**1 765**	413
	6 768	7 505
Current	**6 466**	7 226
Non-current	**302**	279
	6 768	7 505

Reconciliation of provision accounts

	2015 Rm	2014 Rm
Balance at beginning	**229**	207
Additional provision	**68**	48
Paid/reversed during year	**(11)**	(26)
Balance at end	**286**	229

	2015 Rm	2014 Rm

Terms and conditions and impairment provisions of material loans

- Loans to group companies are interest free, repayable on demand, and are unsecured.
- Staff loans consist of personal computer and micro loans, with a repayment date of three years and interest rates ranging between 4% and 22% (2014: 7% and 14%) that are unsecured, and bonds, with a repayment date of between 5 and 30 years, an interest rate of 9% (2014: 9%), that are secured by the property.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. Some of these loans attract interest at prime plus 1% and have no fixed repayment date. Other loans attract interest at rates greater than the current prime rate but limited to 9.5% (2014: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

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

8 REINSURANCE CONTRACTS

	2015 Rm	2014 Rm
Reinsurance asset relating to long-term insurance	1 043	1 155
Prepaid reinsurance	554	506
	1 597	1 661
Balance at beginning	1 661	1 609
Movement charged to income statement	(64)	4
Other	-	48
Balance at end	1 597	1 661
Current	1 006	923
Non-current	591	738
	1 597	1 661

Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance assets. Amounts due from reinsurers in respect of claims incurred by the company on contracts that are reinsured, are included in insurance and other receivables. Refer to note 10.

9 DEFERRED INCOME TAX

	2015 Rm	2014 Rm
Deferred tax liability	(1 765)	(1 628)
	(1 765)	(1 628)
Deferred tax is made up as follows:		
Accruals and provisions	118	59
Revaluations	(1 345)	(1 323)
Deferred tax on intangible assets as a result of business combinations	(210)	(212)
Deferred revenue liability	129	120
Difference between published and statutory policyholder liabilities	610	703
Negative rand reserves	(408)	(395)
Deferred acquisition costs	(533)	(534)
Prepayments	(4)	-
Other	(122)	(46)
	(1 765)	(1 628)
Current	(417)	(369)
Non-current	(1 348)	(1 259)
	(1 765)	(1 628)

	2015 Rm	2014 Rm
Movement in deferred tax		
Balance at beginning	(1 628)	(1 408)
Arising from common control transaction	-	-
Charge to the income statement	(33)	(209)
Accruals and provisions	38	(96)
Accelerated wear and tear	-	3
Revaluations	66	(169)
Deferred tax on intangible assets as a result of business combinations	2	6
Deferred revenue liability	9	6
Difference between published and statutory policyholder liabilities	(93)	51
Negative rand reserves	(13)	3
Deferred acquisition costs	-	(9)
Prepayments	(4)	-
Other	(38)	(4)
Charge to other comprehensive income (note 13)	(30)	(11)
Other	(74)	-
Balance at end	(1 765)	(1 628)
Deferred tax asset on available tax losses and credits not provided for	-	-

Creation of deferred tax assets

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

Critical accounting estimates and judgements

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

Deferred tax on the revaluation of owner-occupied properties has been calculated using a combination of the normal South African income tax rate and the capital gains tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R44 million (2014: R34 million) lower.

10 INSURANCE AND OTHER RECEIVABLES

	2015 Rm	2014 Rm
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 559	2 751
Insurance contract holders	1 961	2 242
Investment contract holders with DPF	2	4
Less provision for impairment	(44)	(42)
Due from reinsurers	640	547
Accelerated rental income (note 4)	134	81
	2 693	2 832
Current	2 597	2 749
Non-current	96	83
	2 693	2 832

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

Impairment is mainly due to expected default in payments.

	2015 Rm	2014 Rm
11 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	**4 924**	7 107
Funds on deposit and other money market instruments – maturity < 90 days	**8 113**	8 340
	13 037	15 447

12 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital of MMI Group Ltd
225 million ordinary shares of 5 cents each
50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each and
4 104 000 convertible, participating, non-voting preference shares of 5 cents each.

	2015 Rm	2014 Rm
Issued share capital		
Balance at beginning	**1 041**	1 041
	1 041	1 041
Share capital	**9**	9
Share premium	**1 032**	1 032
	1 041	1 041

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

Preference shares
MMI Group Ltd has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 14.

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

NOTES TO THE FINANCIAL STATEMENTS
(continued)

		2015 Rm	2014 Rm
13	**OTHER COMPONENTS OF EQUITY**		
(a)	Land and building revaluation reserve	**536**	456
(b)	Revaluation of subsidiaries	**1 315**	598
(c)	Revaluation of available-for-sale investments	**5**	5
(d)	Non-distributable reserve	**-**	-
(e)	Employee benefit revaluation reserve	**81**	98
(f)	Common control reserve	**4 659**	4 659
		6 596	5 816

Movements in other reserves

		2015 Rm	2014 Rm
(a)	**Land and building revaluation reserve**		
	Balance at beginning	**456**	418
	Earnings directly attributable to other components of equity	**94**	44
	Revaluation	**124**	56
	Deferred tax on revaluation	**(30)**	(12)
	Transferred to retained earnings	**(14)**	(6)
	Balance at end	**536**	456

The transfer of R14 million (2014: R6 million) to retained earnings relate to the difference between the depreciation charge on the revalued amount and the amount which whould have been charged under the historic cost model, net of any related deferred tax.

		2015 Rm	2014 Rm
(b)	**Revaluation of subsidiaries**		
	Balance at beginning	**598**	538
	Fair value movement on subsidiaries	**717**	60
	Balance at end	**1 315**	598

		2015 Rm	2014 Rm
(c)	**Revaluation of available-for-sale investments**		
	Available-for-sale assets		
	Balance at beginning	**5**	7
	Fair value gain/(loss) - gross	**-**	(1)
	Gains transferred to net realised gains	**-**	(1)
	Balance at end	**5**	5

(d) Non-distributable reserve

Balance at beginning	-	295
Transfer from/(to) retained earnings	-	(295)
Balance at end	-	-

On 1 January 2004 Metropolitan Life Ltd integrated the Commercial Union insurance book previously acquired and removed the 90:10 licence. This process resulted in a transfer through the income statement of R295 million to this non-distributable reserve, which could not be distributed to shareholders for a period of 10 years in terms of the agreement. This period of 10 years expired during the prior year and the balance of R295 million was transferred to distributable reserves.

(e) Employee benefit revaluation reserve

Balance at beginning	**98**	-
Remeasurement of post-employment benefit obligations	**(17)**	98
Balance at end	**81**	98

(f) Common control reserve

Balance at beginning	**4 659**	4,659
Balance at end	**4 659**	4 659

The company acquired the long-term insurance business of Metropolitan Life Ltd with effect from 31 May 2013. This reserve reflects the difference between the purchase consideration and the book value of the assets and liabilities of a common control business combination.

	2015 Rm	2014 Rm
14 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by MMI Group Ltd		
Balance at beginning	**500**	500
Total comprehensive income	**31**	27
Dividend paid	**(31)**	(27)
Balance at end	**500**	500

This represents preference shares issued by the company to MMI Holdings Ltd. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends in the current year amounted to R31 million (2014: R26.9m).

	2015 Rm	2014 Rm
15 INSURANCE CONTRACTS		
Long-term insurance contracts – gross	**96 796**	98 083
Less: recovery from reinsurers (note 8)	**(1 597)**	(1 661)
Long-term insurance contracts – net	**95 199**	96 422
Movement in long-term insurance contract liabilities		
Balance at beginning	**98 083**	91 006
Transfer to / from policyholder liabilities under insurance contracts	**(1 289)**	7 077
Increase in retrospective liabilities	**1 202**	10 432
Unwind of discount rate	**2 619**	2 238
Expected release of margins	**(2 861)**	(2 513)
Expected cash flows	**(4 036)**	(5 436)
Change in economic assumptions	**251**	332
Change in non-economic assumptions	**(277)**	582
New business	**1 655**	1 887
Experience variances	**158**	(445)
Other	**2**	-
Balance at end	**96 796**	98 083
Open-ended	**7 844**	5 760
Current	**10 344**	11 679
Non-current	**78 608**	80 644
	96 796	98 083

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2015 Rm	2014 Rm
16 INVESTMENT CONTRACTS		
Investment contracts with DPF	**24 643**	24 004
Investment contracts designated at fair value through income	**208 429**	191 134
Total investment contract liability	**233 072**	215 138
Movement in investment contracts with DPF		
Balance at beginning	**24 004**	23 801
Transfer from policyholder liabilities under investment contracts with DPF	**639**	203
Increase/(decrease) in retrospective liabilities	**(353)**	584
Unwind of discount rate	**(14)**	(6)
Expected release of margins	**(293)**	(188)
Expected cash flows	**(489)**	(585)
Change in economic assumptions	**(1)**	(39)
Change in non-economic assumptions	**11**	(8)
New business	**1 743**	464
Experience variances	**35**	(19)
Balance at end	**24 643**	24 004
Open-ended	**19 093**	17 834
Current	**724**	644
Non-current	**4 826**	5 526
	24 643	24 004
Movement in investment contracts designated at fair value through income		
Balance at beginning	**191 134**	157 039
Contract holder movements	**17 182**	34 095
Deposits received	**35 859**	32 917
Contract benefit payments	**(32 218)**	(29 394)
Fees on investment contracts	**(2 038)**	(1 649)
Fair value adjustment to policyholder liabilities under investment contracts	**15 579**	32 221
Other	**113**	-
Balance at end	**208 429**	191 134
Open-ended	**110 089**	105 224
Current	**4 038**	4 215
Non-current	**94 302**	81 695
	208 429	191 134

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the actuarial guidance note SAP104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 23 to 46.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by the Long-term Insurance Act of South Africa and board notice 14 of 2010 issued in terms of the act, as well as SAP104 and
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

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

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2014 for MMI Group Limited retail business.
- 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 2014 for MMI Group Limited retail business.
- Annuity business: The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. Momentum Employee Business are based on the 2002 South African Annuitant standard mortality tables, and Metropolitan annuitants are based on a graduated set of crude mortality rates calculated from experience. The most recent experience investigations were carried out in 2015. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations are done regularly, the most recent being in respect of the period ended December 2014 in respect of Momentum Retail, Metropolitan Retail and Momentum Employee Benefits.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the company's own experience.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.

Persistency

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

Expenses

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

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

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- For non-profit annuity and guaranteed endowment business, yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- For other business, a single gilt rate from the government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest 10 basis points.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate + 3.5% (2014: + 3.5%)
  - Property rate: gilt rate + 1.0% (2014: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2014: + 0.5%)
  - Cash rate: gilt rate - 1.0% (2014: - 1.0%)
- An inflation rate of 6.8% p.a. for ZAR denominated business was used to project future renewal expenses (2014: 6.7% p.a.). This inflation rate was derived by deducting the assumed long-term real return of 1.8% (2014: 1.8%) from the risk-free rate. The assumed long-term real yield is based on the 10-year real return on CPI-linked government bonds with considerable smoothing applied to limit the volatility of this assumption.
- A rate of 7.8% p.a. (2014: 7.7% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2014: 1.0% p.a.).

	2015	2014
• The main best-estimate assumptions, gross of tax, used in the valuation are:		
Gilt rate - risk-free investment return	**8.6%**	8.5%
Assumed investment return for individual smoothed bonus business	**10.8%**	10.7%
Renewal expense inflation	**6.8%**	6.7%

- 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.

Future bonuses

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

Investment guarantees (APN110)

- A market-consistent stochastic model was calibrated using market data as at 30 June 2015 and the value of the investment guarantee liabilities was calculated as at this date.
- APN110 prescribes specific disclosure in respect of the market-consistent stochastic model that was used to calculate the liabilities.

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

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

The following instruments have been valued by the model:

Instrument	2 015		2 014	
	Price (% of nominal)	**Volatility**	**Price (% of nominal)**	**Volatility**
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	5.6%	19.4%	4.7%	16.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	1.4%	24.1%	0.9%	21.1%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0377 (2014: 1.0393)	7.2%	18.6%	6.2%	15.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	7.8%	23.2%	7.5%	22.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	13.9%	21.9%	13.6%	21.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.2682 (2014: 1.2941)	16.6%	21.4%	16.3%	20.8%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	2.7%	28.8%	2.8%	29.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	11.4%	27.9%	11.5%	29.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.4881 (2014: 3.9873)	28.0%	27.4%	30.2%	29.5%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	6.3%	13.7%	6.2%	13.2%
A 20-year put on an interest rate with a strike equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year forward rate at the time of maturity (in 20 years) is lower than this strike price	0.4%	n/a	0.4%	n/a

Tax

- Future tax on investment returns is allowed for according to current four-fund tax legislation by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- 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 2015 by R233 million (2014: R318 million) for the company. The major contributors to this change were as follows for the company:
  - Actuarial methodology and other changes, negative R326 million (2014: negative R310 million).
  - Experience basis changes of R93 million (2014: negative R8 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation and investment over- or under-performance in respect of non-linked business is included under this heading.

Sensitivity analysis

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

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

2015	**Liability** Rm	**Renewal expenses decrease by 10%** Rm	**Expense inflation decreases by 1%** Rm	**Discontinuance rates decrease by 10%** Rm	**Mortality and morbidity decrease by 5%** Rm	**Investment returns reduce by 1%** Rm
Insurance business						
Retail insurance business (excluding annuities)	56 339	55 888	55 741	56 602	54 747	56 584
Annuities (retail and employee benefits)	36 915	36 742	36 781	36 915	37 432	38 827
Employee benefits business (excluding annuities)	3 542	3 541	3 541	3 542	3 552	3 555
Investment with DPF business	24 643	24 629	24 636	24 644	24 644	24 703
Investment business	208 429	208 428	208 428	208 429	208 429	210 073
Total	**329 868**	**329 228**	**329 127**	**330 132**	**328 804**	**333 742**

2014	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)	59 492	58 983	59 088	59 879	58 404	59 760
Annuities (retail and employee benefits)	35 123	34 957	35 017	35 123	35 446	36 656
Employee benefits business (excluding annuities)	3 468	3 275	3 275	3 275	3 092	3 322
Investment with DPF business	24 004	24 005	24 013	24 021	24 036	24 048
Investment business	191 134	191 134	191 135	191 135	191 136	192 418
Total	313 221	312 354	312 528	313 433	312 114	316 204

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 company employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in the company'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 on this class of business can be obtained by noting that a 5% (2014: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R107.5 million (2014: R188.1 million) in the before-tax earnings of the company.

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

	2015 Rm	2014 Rm
18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME		
Subordinated call notes	**3 320**	2 573
Carry positions	**9 288**	4 807
	12 608	7 380
Current	**10 315**	4 807
Non-current	**2 293**	2 573
	12 608	7 380

- Subordinated call notes (unsecured) - the Financial Services Board (FSB) granted approval for the company to raise the following debt issuances:

  - On 8 March 2006, the company issued R1 billion of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by the company from 15 September 2015. The notes were issued at a spread of 70 basis points over the current R157 government bond yield at the time.

  The coupon rate is fixed at 8.5% per annum, payable bi-annually on 15 March and 15 September, until the first call date (15 September 2015). At the first call date, a step-up of 80% of the initial credit spread will apply and interest will convert from fixed to floating, payable quarterly on 15 March, 15 June, 15 September and 15 December.

  The company has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby MMI Group Ltd earns interest at the same fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments - held for hedging purposes in note 6.3) and the principal instrument have been fair valued.

  - On 17 March 2014, the company issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2024. These notes are callable by the company from 17 March 2019. The notes were issued at a spread of 146 basis points over the 3-month JIBAR interest rate.

  The coupon rate is floating at the 3-month JIBAR interest rate plus 1.46% (nacq) per annum, payable quarterly on 17 March, 17 June, 17 September and 17 December, until the first call date (17 March 2019). At the first call date, the margin over the reference rate will increase to 2.46% (nacq).

  - On 17 March 2014, the company issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2026. These notes are callable by the company from 17 March 2021. The notes were issued at a spread of 170 basis points over the R208 government bond yield at the time.

  The coupon rate is fixed at 10.065% per annum, payable bi-annually on 17 March and 17 September, until the first call date (17 March 2021). At the first call date, the margin over the reference interest rate will increase to 270 basis points and interest will convert from fixed to floating, payable quarterly on 17 March, 17 June, 17 September and 17 December.

  The company has hedged the fixed coupon rate (excluding the fixed credit spread) on this liability by entering into a swap agreement with ABSA Bank Limited whereby the company earns interest at a fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments - held for hedging purposes in note 6.3) and the principal instrument have been fair valued.

  - On 1 December 2014, the company issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes have a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% per annum over the 3-month JIBAR interest rate.

  On 12 March 2015, Fitch Ratings affirmed the credit rating of the company's subordinated debt at 'A+(zaf)'.

  The company has sufficient cash to cover the debt.

- Carry positions (secured) - In the prior year R2 592 million related to a carry position with Rand Merchant Bank that represented a sale and repurchase of assets in the company's annuity portfolio. These carry positions were secured by government stock with a value of R2 797 million. These carry positions are now being managed internally. The total value of the carry positions now managed internally amounts to R6 056 million which is secured by government stock with a value of R5 884 million.

  Carry positions (secured) - R3 232 million (2014: R1 117 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R6 467 million (2014: R1 232 million).

	2015 Rm	2014 Rm
19 FINANCIAL LIABILITIES AT AMORTISED COST		
Borrowings		
Subordinated redeemable debt	-	502
	-	502
Current	-	502
Non-current	-	-
	-	502

19.1 Subordinated redeemable debt

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

	MSRF Rm	MSPF Rm	MLPF Rm	SSPF Rm	SGPF Rm	**MGL Rm**
20 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
20.1 Employee benefit assets						
2015						
Present value of funded obligation	-	(3)	-	-	-	(3)
Fair value of plan assets	119	60	-	-	231	410
	119	57	-	-	231	407
Applied limit	-	(3)	-	-	-	(3)
Net asset recognised	119	54	-	-	231	404
Movement in present value of funded obligation						
Balance at beginning	-	17	-	-	1	18
Interest expense	-	1	-	-	-	1
Benefits paid	-	-	-	-	(1)	(1)
Settlements/curtailments	-	(15)	-	-	-	(15)
Balance at end	-	3	-	-	-	3
Current	-	3	-	-	-	3
	-	3	-	-	-	3
Movement in fair value of plan assets						
Balance at beginning	119	84	10	-	217	430
Return on plan assets	10	10	-	-	20	40
Recognised in other comprehensive income	(3)	(8)	-	-	(2)	(13)
Employer contributions	(7)	(21)	-	-	-	(28)
Benefits paid	-	10	(10)	-	(4)	(4)
Settlements	-	(15)	-	-	-	(15)
Balance at end	119	60	-	-	231	410
Current	8	3	-	-	-	11
Non-current	111	57	-	-	231	399
	119	60	-	-	231	410

	MSRF Rm	MSPF Rm	MLPF Rm	SSPF Rm	SGPF Rm	MGL Rm
2014						
Present value of funded obligation	-	(17)	-	-	(1)	(18)
Fair value of plan assets	119	84	10	-	217	430
	119	67	10	-	216	412
Applied limit	-	(4)	-	-	-	(4)
Net asset recognised	119	63	10	-	216	408
Movement in present value of funded obligation						
Balance at beginning	-	457	3	3	2	465
Interest expense	-	16	-	-	-	16
Recognised in other comprehensive income	-	(8)	-	3	-	(5)
Benefits paid	-	(10)	(3)	(6)	(1)	(20)
Settlements/curtailments	-	(542)	-	-	-	(542)
Past service costs and gains and losses on settlements/ curtailments (expensed)	-	104	-	-	-	104
Balance at end	-	17	-	-	1	18
Current	-	17	-	-	1	18
	-	17	-	-	1	18
Movement in fair value of plan assets						
Balance at beginning	114	225	14	6	205	564
Return on plan assets	3	(43)	1	-	18	(21)
Recognised in other comprehensive income	10	29	(3)	-	(4)	32
Employer contributions	(8)	(98)	-	-	-	(106)
Benefits paid	-	513	(2)	(6)	(2)	503
Settlements	-	(542)	-	-	-	(542)
Balance at end	119	84	10	-	217	430
Current	4	17	-	-	-	21
Non-current	115	67	10	-	217	409
	119	84	10	-	217	430

MMI Group Retirement Scheme (MGRS)

With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the funds below converted to the MGRS. The MGRS is a defined contribution fund. Contributions for the current year are included in note 31.

Momentum Life Pension Fund (MLPF), Southern Staff Pension Fund (SSPF) and Sage Group Pension Fund (SGPF)

All full time employees in the company are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Momentum Life Pension Fund (MLPF), Southern Staff Pension Fund (SSPF) and Sage Group Pension Fund (SGPF) are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of these funds indicated that all three funds were found to be in a sound financial position. The SSPF no longer has any assets in the fund. It is in the process of being deregistered. The MLPF was liquidated during the financial year.

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

The key valuation assumptions for the MLPF, SSPF and SGPF are:

Assumptions	Base	
Discount rate	9%	(2014: 9%)
Expected rate of return on plan assets	9%	(2014: 9%)
Salary inflation rate	7%	(2014: 6% - 7%)
Net post-retirement interest rate	2%	(2014: 2%)
Normal retirement age	60 – 65 years	
Mortality		
Pre-retirement	Nil	
Post-retirement	PA(90) minus 4	

Metropolitan Staff Retirement Fund (MSRF)

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

Metropolitan Staff Pension Fund (MSPF)

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

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

The assets of these schemes are held in separately administered funds and are broken down as follows:

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

Income statement movement and future contributions

The total movement of R35 million (2014: R149 million) is recognised in the income statement in employee benefit costs (refer note 31). Future employer contributions are estimated to be minimal.

	2015 Rm	2014 Rm
20.2 Employee benefit obligations		
(a) Post-retirement medical benefits	**297**	281
(b) Other employee benefit obligations	**423**	199
(c) Cash-settled arrangements	**446**	360
Total employee benefit obligations	**1 166**	840
Current	**521**	252
Non-current	**645**	588
	1 166	840

Employee benefit expenses are included in the income statement. Refer to note 31.

	2015 Rm	2014 Rm
(a) Post-retirement medical benefits		
Balance at beginning – unfunded	**281**	262
Current service costs	**2**	2
Interest expense	**25**	22
Remeasurement taken to OCI	**8**	14
Employer contributions	**(16)**	(16)
Benefits paid	**(3)**	(3)
Balance at end – unfunded	**297**	281

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.

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The key valuation assumptions are:

Assumptions	Base assumption		Change in significant assumption	Change in value of liability Decrease in significant assumption Rm	Increase in significant assumption Rm
Healthcare cost inflation rate					
Defined benefit fund	8.00%	(2014: 8.25%)	1%	(24)	29
Defined contribution fund	8.00%	(2014: 8.25%)	1%	(10)	12
Valuation rate of interest/ discount rate	9.1%	(2014: 9%-9.25%)	1%	15	(12)
Administration fee inflation	7.00%	(2014: 6.75%)			
Normal retirement age	60 - 62 years				
Mortality					
Pre-retirement	None				
Post-retirement	PA(90)-2				

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

	2015 **Rm**	2014 Rm
Current	**22**	17
Non-current	**275**	264
1 to 5 years	**212**	213
5 to 10 years	**34**	32
> 10 years	**823**	557
Effect of discounting	**(794)**	(538)
	297	281

	2015 Rm	2014 Rm
(c) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**360**	256
Additional provisions	**314**	268
Benefits paid	**(228)**	(164)
Balance at end	**446**	360
Current	**218**	182
Non-current	**228**	178
	446	360

Share schemes

Momentum Conditional Share Plan (MomCSP)

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

Certain ex-Momentum employees had awards relating to FirstRand schemes. The CSP allowed the company 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 company and thus increase the alignment of their interests with the interests of the other shareholders. Awards vested equally over the third, fourth and fifth anniversary. The scheme was cash-settled and no MMI Holdings Ltd shares has been issued in settlement of this obligation. The final tranche (30 000 units) was redeemed in November 2014.

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

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

The award date was 1 January 2011 and the vesting date was either 1 December 2013 or 1 December 2014. The cash sum was only paid out if the employee remained in the employ of the company for the full vesting period and if certain performance criteria (as determined by the board from time to time) had been met.

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the company, 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 (ROEV) of the company. The units will therefore vest after a period of three years, and the company's performance will be averaged over the same period to determine whether the criteria have been met.

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

The Remuneration Committee has approved that the dividends to be declared by MMI during the vesting period will accrue to participants in the form of additional value. The dividend value is added to the original offer in the form of additional units with the same vesting date as the original offer.

MMI Outperformance Plan (MMI OP)

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

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

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

	MMI OP Performance units '000	MMI OP Retention units '000	MMI LTIP Performance units '000	MMI LTIP Retention units '000	MMI LTRAS Total units '000	MomCSP Total units '000
Units in force at 1 July 2013	-	-	9 074	6 797	5 070	1 263
Units granted during year	-	-	4 473	3 432	-	-
Units transferred from / (to) other group companies during year	-	-	(562)	(316)	(122)	-
Units exercised/ released during year	-	-	(8)	(11)	(4 643)	(1 219)
Market value of range at date of exercise/release (cents)	-	-	-	-	2 530	2181-2690
Units cancelled/lapsed during year	-	-	(487)	(668)	(61)	(14)
Units in force at 30 June 2014	-	-	12 490	9 234	244	30
Units granted during year	10 203	187	4 789	4 170	-	-
Units transferred from / (to) other group companies during year	-	-	(413)	(247)	-	-
Units exercised/ released during year	-	-	(3 879)	(2 941)	(244)	(30)
Market value of range at date of exercise/release (cents)	-	-	2569-3373	2569-3373	3 077	2 720
Units cancelled/lapsed during year	(93)	-	(770)	(580)	-	-
Units in force at 30 June 2015	10 110	187	12 217	9 636	-	-

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

2015	MMI OP Perfor-mance units '000	MMI OP Retention units '000	MMI LTIP Perfor-mance units '000	MMI LTIP Retention units '000	MMI LTRAS Total units '000	MomCSP Total units '000
Financial year 2015/2016		-	4 070	2 939	-	-
Financial year 2016/2017		-	4 065	3 442	-	-
Financial year 2017/2018		-	4 082	3 255	-	-
Financial year 2018/2019	6 066	112	-	-	-	-
Financial year 2019/2020	4 044	75	-	-	-	-
Total outstanding shares	**10 110**	**187**	**12 217**	**9 636**	**-**	**-**

Inputs used in valuation of the MMI share schemes

MMI LTIP	Valuation assumptions include				
	Outstanding tranche period in months	Take-up rate on units outstanding	Current vesting rate	Share price at yearend	Adjusted share price (1)
Award date 01/11/2012 and vesting date 01/11/2015 - performance and retention units	4	100%	94%	30.15	30.15
Award date 02/04/2013 and vesting date 02/04/2016 - performance and retention units	9	100%	94%	30.15	30.15
Award date 15/10/2013 and vesting date 15/10/2016 - performance and retention units	15	100%	88%	30.15	30.15
Award date 02/05/2014 and vesting date 02/05/2017 - performance and retention units	22	100%	88%	30.15	30.15
Award date 25/09/2014 and vesting date 25/09/2016 - retention units (2)	15	100%	88%	30.15	30.15
Award date 01/10/2014 and vesting date 01/10/2017 - performance units	27	125%	82%	30.15	30.15
Award date 01/10/2014 and vesting date 01/10/2017 - retention units	27	100%	82%	30.15	30.15
Award date 01/04/2015 and vesting date 01/04/2018 - performance units	33	125%	82%	30.15	30.15
Award date 01/04/2015 and vesting date 01/04/2018 - retention units	33	100%	82%	30.15	30.15

(1) Adjusted for future dividends and past special distributions

(2) Relates to the deferral of short term incentives, above a specific threshold, into the MMI LTIP in the form of retention units

Vesting rate assumptions regarding performance units in the previous table
As stated above, the performance units in the MMI LTIP are subject to performance criteria.

For tranches allocated prior to 1 October 2014, there are two performance criteria, the first being an absolute targeted Return on Embedded Value (ROEV) of nominal GDP +3% average over the vesting period. The second criteria is an ROEV Index measure which compares the company's average ROEV to that of its peer group over the vesting period. For tranches allocated from 1 October 2014 onwards, there is only an absolute targeted ROEV of nominal GDP + 3% with an outperformance target of nominal GDP + 6%.

The vesting rate assumption regarding the absolute ROEV target is determined with reference to the company's forecasted ROEV over the remaining vesting period, relative to the expected nominal GDP growth.

The vesting rate assumption regarding the ROEV Index, for tranches allocated prior to 1 October 2014, is determined with reference to the company's expected ROEV relative to its peers based on actual published ROEV data. Due to the volatility in the valuation model, only once reliable evidence exists that a vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of the peer group, the vesting percentage increases by 15%, subject to a maximum additional vesting of 150% of the allocated performance units. Each 1% outperformance of the average ROEV of the peer group would result in an increase of R23 million in the liability under cash-settled arrangements at 30 June 2015 (2014: R25 million).

For all tranches allocated from 1 October 2014 onwards, the vesting rate assumption regarding the ROEV Index is linked to the company's absolute ROEV target of nominal GDP + 3% per annum and an outperformance target of nominal GDP + 6% per annum. The peer group measure has been removed. The vesting rate assumption is determined with reference to the company's actual ROEV relative to the targeted and outperformance growth. Again due to volatility in the valuation model, only once reliable evidence exists that the vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of nominal GDP + 3%, the vesting percentage increases by 33%, subject to a maximum additional vesting of 100% of the allocated performance units. Each 1% outperformance of the average ROEV of nominal GDP + 3% would result in an increase of R14 million in the liability under cash-settled arrangements at 30 June 2015.

MMI OP	**Valuation assumptions include**				
	Outstanding tranche period in years	**Take-up rate on units outstanding**	**Current vesting rate**	**Share price at yearend**	**Adjusted share price (1)**
Award date 05/03/2015 and vesting date 01/10/2018 - performance units	39	20%	76%	30.15	30.15
Award date 05/03/2015 and vesting date 01/10/2018 - retention units	39	100%	76%	30.15	30.15
Award date 05/03/2015 and vesting date 01/10/2019 - performance units	51	20%	70%	30.15	30.15
Award date 05/03/2015 and vesting date 01/10/2019 - retention units	51	100%	70%	30.15	30.15

(1) Adjusted for future dividends and past special distributions

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

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations are made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares.

Allocations made before October 2013 vest equally over the third, fourth and fifth anniversary. During November 2013 Momentum Sales issued Phantom Shares. The share options previously issued will still be valid, but no further share options will be issued going forward. Allocations made since November 2013 have a 5 year vesting period. When the shares vest, the company will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the company and therefore the scheme remains cash-settled.

	MSPS '000	MSS '000
Options in force at 1 July 2013	-	14 949
Granted at prices ranging between (cents)	-	1306-2256
Options granted during year	1 749	-
Granted at prices ranging between (cents)	-	-
Options exercised/ released during year	-	(1 307)
Market value of range at date of exercise/release	-	2255-2471
Options cancelled/lapsed during year	-	(1 200)
Granted at prices ranging between (cents)	-	1306-2256
Options in force at 30 June 2014	1 749	12 442
Granted at prices ranging between (cents)	-	1306 - 2256
Units/Options granted during year	**2 385**	**5**
Granted at prices ranging between (cents)	2615-3298	1 699
Units/Options exercised/ released during year	**-**	**(3 139)**
Market value of range at date of exercise/release	-	2656-3290
Units/Options cancelled/lapsed during year	**(251)**	**(453)**
Granted at prices ranging between (cents)	2451-3298	1699-2100
Units/Options in force at 30 June 2015	**3 883**	**8 855**

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

2015	MSPS '000	MSS '000
Financial year 2015/2016	-	3 963
Financial year 2016/2017	543	3 228
Financial year 2017/2018	1 294	1 664
Financial year 2018/2019	1 294	
Financial year 2019/2020	752	
Total outstanding shares	**3 883**	**8 855**

Valuation assumptions

	2015 MSPS	**2015** MSS	2014 MSPS	2014 MSS
Share price	**2286-3298**	**2982**	2286-2451	26.15
Volatility		**10.0%-11.9%**		9.9% - 13.1%
Dividend yield		**4.4%**		5.1%
Forfeiture rate	**5.0%**	**5.0%**	5.0%	5.0%
Risk-free yield curve		**5.5%-7.1%**		4.7% - 7.2%

Share based payment expense

The share based payment expense relating to cash settled schemes is R313 million (2014: R268 million) for the company and is disclosed under employee benefit expenses in note 31.

	2015 Rm	2014 Rm
21 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	**3 570**	3 208
Claims in process of settlement		
Insurance contracts	**1 646**	1 468
Investment contracts with DPF	**33**	67
Premiums paid in advance	**1 642**	1 382
Due to reinsurers	**249**	291
Payables arising from investment contracts	**1 441**	1 014
Deferred revenue liability	**244**	218
Loans due to subsidiaries and fellow MMI Holdings Ltd subsidiaries	**129**	313
Due to agents, brokers and intermediaries	**544**	522
Unsettled trades	**1 500**	357
Other payables	**1 498**	2 055
	8 926	7 687
Current	**8 684**	7 470
Non-current	**242**	217
	8 926	7 687
Reconciliation of deferred revenue liability		
Balance at beginning of year	**218**	219
Deferred income relating to new business	**85**	61
Amount recognised in income statement (refer to note 26)	**(59)**	(62)
Balance at end of year	**244**	218

	2015 Rm	2014 Rm
22 PROVISIONS		
Balance at beginning of year	**-**	71
Utilisation of provisions	**-**	(14)
Unutilised amounts reversed	**-**	(57)
Balance at end of year	**-**	-

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	2015 Rm	2014 Rm

23 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

There were no non-current assets and liabilities held for sale at 30 June 2015 or at 30 June 2014.

24 INCOME TAX

24.1 Current Income tax (assets)/liabilities

	2015 Rm	2014 Rm
Current income tax assets	(262)	(281)
	(262)	(281)
Balance at beginning	(281)	122
Charged to income statement	1 290	1,611
Additional provisions	1 290	1,611
Paid during year	(1 271)	(2 014)
Balance at end	(262)	(281)

24.2 Income tax (credits)/expenses

	2015 Rm	2014 Rm
Current taxation	1 290	1 611
Shareholder tax		
South African normal tax - current period	1 003	1,001
South African normal tax - prior year	(3)	-
Foreign withholding tax	7	6
Contract holder tax		
Tax on contract holder funds - current period	283	440
Tax on contract holder funds - prior period	-	164
Deferred tax	33	209
Shareholder tax		
South African normal tax - current period	(27)	(45)
South African normal tax - prior year	-	8
Contract holder tax		
Tax on contract holder funds - current period	60	418
Tax on contract holder funds - prior period	-	(172)
	1 323	1,820

Tax rate reconciliation	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Prior year adjustments	(0.1)	(0.7)
Taxation on contract holder funds	7.6	16.6
Foreign tax differential	0.1	0.1
Capital gains tax	-	(0.5)
Non-taxable income	(7.1)	(8.6)
Non-deductible expenses	0.7	0.5
Effective rate	29.2	35.4

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	2015 Rm	2014 Rm
25 NET INSURANCE PREMIUMS		
Premiums received	**22 458**	21 184
Long-term insurance contracts	**19 384**	18 849
Investment contracts with DPF	**3 074**	2 335
Premiums received ceded to reinsurers	**(3 476)**	(3 111)
	18 982	18 073

	2015 Rm	2014 Rm
26 FEE INCOME		
Contract administration	**2 097**	1 711
Investment contract administration	**2 038**	1 649
Release of deferred front-end fees	**59**	62
Trust and fiduciary services	**584**	570
Asset management	**19**	15
Retirement fund administration	**565**	555
Health administration	**130**	118
Other income	**337**	416
Scrip lending fees	**6**	8
Other	**331**	408
	3 148	2 815

	2015 Rm	2014 Rm
27 INVESTMENT INCOME		
Designated at fair value through income		
Dividend income – listed	**1 879**	1 673
Dividend income – unlisted	**548**	890
Dividends received from subsidiary companies	**512**	545
Interest income	**9 186**	8 221
Designated at fair value through income	**8 295**	7 263
Available-for-sale	**-**	38
Loans and receivables	**147**	162
Cash and cash equivalents	**744**	758
Rental income	**580**	510
Investment properties	**572**	495
Owner-occupied properties	**8**	15
	12 705	11 839

NOTES TO THE FINANCIAL STATEMENTS
(continued)

		2015 Rm	2014 Rm
28	**NET REALISED AND FAIR VALUE GAINS**		
	Financial instruments	**13 591**	39 363
	Designated at fair value through income	**13 608**	39 608
	Derivative financial instruments	**(17)**	(246)
	Available-for-sale – net realised and fair value gains/(losses)	**-**	1
	Investment property	**286**	323
	As per valuation	**340**	346
	Change in accelerated rental income	**(54)**	(23)
	Profit / (loss) on sale of subsidiary	**(369)**	-
	Fair value gains / (losses) on investment in subsidiaries	**(234)**	(133)
	Profit / loss on sale of fixed assets	**9**	-
	Other investments	**154**	(13)
		13 437	39 540
29	**NET INSURANCE BENEFITS AND CLAIMS**		
	Long-term insurance contracts	**17 877**	16 815
	Death and disability claims	**7 478**	6 686
	Maturity claims	**4 469**	4 894
	Annuities	**3 114**	2 452
	Surrenders	**2 506**	2 429
	Terminations and withdrawal benefits	**310**	354
	Investment contracts with DPF	**3 885**	4 015
	Death and disability claims	**30**	44
	Maturity claims	**671**	845
	Annuities	**152**	54
	Surrenders	**331**	367
	Terminations and withdrawal benefits	**2 701**	2 705
		21 762	20 830
	Amounts recovered from reinsurers	**(1 944)**	(1 534)
		19 818	19 296
30	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES**		
	Depreciation	**118**	117
	Owner-occupied properties (note 2)	**37**	36
	Equipment (note 3)	**81**	81
	Amortisation (note 1)	**58**	53
	Value of in-force acquired	**37**	38
	Customer relationships	**3**	1
	Computer software - acquired	**5**	6
	Computer software - internally developed	**13**	8
		176	170

		2015 Rm	2014 Rm
31	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	**2 462**	2 130
	Contributions to medical aid funds	**108**	105
	Defined benefit retirement fund	**1**	1
	Defined contribution retirement fund	**157**	151
	Post-retirement medical benefits	**13**	1
	Retirement fund assets (note 20.1)	**(35)**	149
	Share-based payment expenses	**313**	268
	Training costs	**120**	105
	Other	**33**	30
		3 172	2 940
32	**SALES REMUNERATION**		
	Commission incurred for the acquisition of insurance contracts	**2 020**	2 029
	Commission incurred for the acquisition of investment contracts with DPF	**11**	12
	Commission incurred for the acquisition of investment contracts without DPF	**715**	683
	Amortisation of deferred acquisition costs	**287**	218
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	**68**	28
		3 101	2 970
33	**OTHER EXPENSES**		
	Asset management fees	**493**	702
	Auditors' remuneration	**39**	46
	Bank charges	**31**	34
	Consulting fees	**187**	247
	Direct property operating expenses on investment property	**170**	132
	Information technology expenses	**238**	199
	Marketing costs	**285**	273
	Office costs	**408**	345
	Operating lease charges	**39**	36
	Other indirect taxes	**192**	191
	Policy services	**43**	42
	Travel and entertainment expenses	**106**	101
	Other expenses and recoveries	**(318)**	(392)
		1 913	1 956
34	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Subordinated redeemable debt	**21**	46
	Unsecured subordinated call notes	**249**	102
	Carry positions	**261**	153
	Other	**35**	74
		566	375

NOTES TO THE FINANCIAL STATEMENTS
(continued)

35 EARNINGS PER ORDINARY SHARE

Attributable to owners of the parent	Basic earnings 2015	2014
Earnings (cents per share)	**1 673**	1,693
Headline earnings (cents per share)	**1 867**	1,692
Core headline earnings (cents per share)	**1 943**	1,673

Reconciliation of headline earnings attributable to owners of the parent	**Basic earnings 2015 Rm**	2014 Rm
Earnings – equity holders of the company	**3 179**	3 216
Realised gains on available-for-sale financial assets	**-**	(1)
Loss on sale of subsidiary	**369**	-
Headline earnings (1)	**3 548**	3 215
Net realised and fair value gains on excess	**(102)**	(218)
Basis and other changes, and investment variances	**216**	149
Amortisation of intangible assets relating to business combinations	**29**	32
Core headline earnings (2)	**3 691**	3 178
Weighted average number of ordinary shares in issue (million)	**190**	190

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

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

		2015 Rm	Restated 2014 Rm
36	**CASH FLOW FROM OPERATING ACTIVITIES**		
36.1	**Cash utilised in operations**		
	Profit before tax	**4 533**	5 063
	Adjusted for		
	Dividends received	**(2 939)**	(3 056)
	Interest received	**(9 186)**	(8 221)
	Finance costs	**566**	375
	Net realised and fair value gains	**(13 428)**	(39 363)
	Depreciation and amortisation expenses	**176**	170
	Deferred acquisition costs movement	**1**	(33)
	Share-based payment and other employee benefit expenses	**348**	269
	Staff and management bonuses liability	**286**	(2)
	Leave pay liability	**7**	9
	Provisions	**-**	(57)
	Reinsurance assets	**(64)**	(52)
	Employee benefit assets and obligations	**(11)**	(1 230)
	Accelerated rental income	**54**	23
	Changes in operating assets and liabilities		
	Insurance and investment liabilities	**14 929**	39 726
	Investment property	**(340)**	(346)
	Assets designated at fair value through income	**(3 566)**	(1 764)
	Investments in associate	**(7 360)**	8 819
	Loans and receivables	**737**	(228)
	Insurance and other receivables	**139**	(340)
	Change in employee benefit obligations	**(316)**	(185)
	Other operating liabilities	**1 660**	(1 035)
	Cash utilised in operations	**(13 774)**	(1 458)

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

		2015 Rm	Restated 2014 Rm
36.2	**Income tax paid**		
	Due at beginning	**(1 347)**	(1 530)
	Charged to income statement	**(1 323)**	(1 820)
	Charged directly to other comprehensive income	**(30)**	(11)
	Due at end	**1 503**	1 347
		(1 197)	(2 014)
36.3	**Interest paid**		
	Subordinated redeemable debt	**(21)**	(46)
	Unsecured subordinated call notes	**(249)**	(102)
	Carry positions	**(261)**	(153)
	Other	**(35)**	(120)
		(566)	(375)

	2015 Rm	2014 Rm

37 CAPITAL AND LEASE COMMITMENTS

Capital commitments

There are no capital commitments as at 30 June 2015, nor were there any capital commitments as at 30 June 2014.

Lease commitments

	2015 Rm	2014 Rm
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	**1**	2
Between 1 and 5 years	**7**	10
	8	12
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	**445**	250
Between 1 and 5 years	**747**	909
More than 5 years	**346**	350
	1 538	1 509

38 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.

39 RELATED PARTY TRANSACTIONS

39.1 Major shareholders and group companies

The holding company of MMI Group Limited is MMI Holdings Limited, and the major shareholder in MMI Holdings Limited is Rand Merchant Insurance Holdings Limited (RMIH).

The most significant related parties of MMI Group Limited are Momentum Asset Management (Pty) Limited, Momentum International MultiManagers (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Property Investments (Pty) Limited, AdviceAtWork (Pty) Limited, Momentum Ability Limited, Momentum Medical Scheme Administrators (Pty) Limited, Momentum Manager of Managers (Pty) Limited, Momentum Global Investment Management Limited, Momentum Short-term Insurance Limited, Momentum Wealth International Limited, Momentum Interactive (Pty) Ltd, Aconcagua 14 Investments (RF) (Pty) Ltd, Metropolitan Life Properties (Proprietary) Limited, Metropolitan Investment Options (Proprietary) Limited and Gamaphuteng Enterprises (Proprietary) Limited. Subsidiaries and associated companies of these companies are also related parties.

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

Included in the reinsurance asset disclosed in note 8, is a reinsurance asset of R166m with Momentum Ability Limited (2014: R133m). Reinsurance premiums of R1 722m (2014: R1 583m) and reinsurance recoveries of R463m (2014: R385m) were respectively paid to and received from Momentum Ability Limited.

Asset management and asset administration fees of R504m (2014: R459m) was paid to other MMI group companies during the year.

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

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

39.2 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 company. Detailed director's remuneration is provided in Annexure C.

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

	1 July 2014 to 30 June 2015 Rm	1 July 2013 to 30 June 2014 Rm
Salaries and other short-term employee benefits	**65**	68
Post-employment benefits	**2**	3
Share-based payments	**34**	63
Director's fees	**8**	7
	109	141

The executive directors are members of the staff pension schemes and participate in the company's long-term retention schemes, the details of which are in note 20.

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

	2015 Insurance Rm	2015 Investment Rm
Fund value (at 30 June 2015)	**N/A**	**77**
Aggregate life and disability cover (at 30 June 2015)	**52**	**N/A**
Deposits/premiums (for 12 months to June 2015)	**-**	**4**
Withdrawals/claims (for 12 months to June 2015)	**-**	**8**

	2014 Insurance Rm	2014 Investment Rm
Fund value (at 30 June 2014)	N/A	90
Aggregate life and disability cover (at 30 June 2014)	37	N/A
Deposits/premiums (for 12 months to June 2014)	-	19
Withdrawals/claims (for 12 months to June 2014)	-	46

In aggregate, the company earned fees and charges totalling R0.4 million (2014: R0.5 million) on the insurance, annuities and investment products set out above.

39.3 Dividends

The company declared a final ordinary dividend of R2 517 million (R13.27 per ordinary share) to MMI Holdings Limited for the year ended 30 June 2014, which was only provided for during the 2015 financial year, compared to a final ordinary dividend of R2 000 million (R10.54 per ordinary share) for the year ended 30 June 2013, which was only provided for during the 2014 financial year.

The company also declared R1 000 million (2014: R1 200 million) in interim ordinary dividends being R5.27 (2014: R6.33) per ordinary share to MMI Holdings Limited in March 2015 (2014: March 2014). Another R1 580 million (R8.33 per ordinary share) will be provided for during the 2016 financial year (as part of the final dividend declared in September 2015).

The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends declared to MMI Holdings Ltd in the current year amounted to R31 million (2014: R26.9m).

39.4 Post-employment benefit plans

Refer to note 20 for details of the company's employee benefit plans.

40 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the company recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account.

While striving to create a competitive long-term advantage by managing risk as an enabler, the company simultaneously seeks to achieve higher levels of responsibility to all stakeholders.

The company is currently exposed to the following risks:

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

Liquidity risk: Liquidity risk is the risk that the company, 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 company, or because of the possibility that the company could be required to pay its liabilities earlier than expected (as a result of unexpected policyholder behaviour). This might occur in circumstances where the company's assets are not marketable, or can only be realised at excessive cost. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

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

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

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

40.1 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 company where assets are managed and performance is evaluated against mandates. Further disaggregation within a class is also provided where relevant.

	2015 Rm	Restated 2014 Rm
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	58 937	57 436
Local listed	58 309	56 390
Foreign listed	462	358
Unlisted	166	688
Debt securities	86 035	74 254
Stock and loans to government and other public bodies		
Local listed	35 575	27 824
Unlisted	2 831	3 056
Other debt securities		
Local listed	21 836	21 684
Foreign listed	89	78
Unlisted	25 704	21 612
Funds on deposit and other money market instruments	10 638	12 681
Unit-linked investments *(refer to next table for further detail)*	113 428	103 361
Collective investment schemes		
Local unlisted or listed quoted	71 290	64 613
Foreign unlisted or listed quoted	20 165	17 010
Foreign unlisted unquoted	412	495
Other unit linked investments		
Local unlisted or listed quoted	8 071	7 614
Local unlisted unquoted	12 210	12 332
Foreign unlisted or listed quoted	1	1
Foreign unlisted unquoted	1 279	1 296
Investments in associates designated at fair value through income *(refer to next table for further detail)*	17 935	10 575
Derivative financial instruments	1 967	2 253
Held for trading	1 961	2 238
Held for hedging purposes	6	15
Available-for-sale	8	7
Equity securities		
Local listed	4	3
Unlisted	4	4
Interest in subsidiary companies	48 456	51 633
Financial assets carried at amortised cost		
Loans and receivables	6 768	7 505
Accounts receivable	1 025	1 149
Unsettled trades	1 765	413
Loans	3 978	5 943
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 693	2 832
Cash and cash equivalents	13 037	15 447
Other assets carried at fair value		
Owner-occupied properties	1 478	1 373
Investment properties	6 650	4 797
Other assets not carried at fair value	5 246	5 287
Total assets	373 276	349 441

2014 reclassification

Refer to notes 5 and 6.2 for details of the 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. Where the company is the contract holder of an investment contract at another insurer, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2015 Rm	Restated 2014 Rm
Collective investment schemes		
Local and foreign	**109 775**	92 116
Equity	**89 434**	74 002
Interest-bearing	**7 802**	10 877
Property	**3 253**	2 140
Mixed	**4 903**	4 447
Money market	**4 348**	649
Commodities	**35**	1
Other unit-linked investments	**21 588**	21 820
Local and foreign		
Equity	**7 114**	7 202
Interest-bearing	**1 810**	2 020
Mixed	**11 583**	10 712
Commodities	**1 081**	1 886
	131 363	113 936
Designated at fair value through income: unit-linked investments	**113 428**	103 361
Investments in associates designated at fair value through income	**17 935**	10 575
	131 363	113 936

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

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

	2015 Rm	2014 Rm
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	**208 429**	191 134
Designated at fair value through income	**12 608**	7 380
Subordinated call notes	**3 320**	2 573
Carry positions	**9 288**	4 807
Derivative financial instruments	**1 974**	1 638
Held for trading	**1 974**	1 638
Carried at amortised cost		
Financial liabilities	**-**	502
Subordinated redeemable debt	**-**	502
Other payables	**8 926**	7 687
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**1 679**	1 535
Payables arising from investment contracts	**1 441**	1 014
Unsettled trades	**1 500**	357
Other payables at amortised cost	**4 306**	4 781
Insurance contract liabilities	**96 796**	98 083
Investment contracts with DPF	**24 643**	24 004
Other non-financial liabilities	**2 931**	2 468
Total liabilities	**356 307**	332 896

41 Capital management

41.1 Capital management objectives

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

- to optimise the company'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 company'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 company 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 company'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.

41.2 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 company is on the targeted (i.e. required) level of economic capital, given the anticipated changes in the regulatory environment.

41.3 Overview of capital management developments

41.3.1 Capital allocated to the company

The company holds sufficient capital as required for its particular business operations. The capital allocation therefore reflects the economic capital requirement of the company and satisfies the risk appetite as approved by the board of directors. The economic capital requirement represents a long-term view (i.e. it looks through the economic cycle).

The economic capital requirement for the company, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the requirements for 5 years. The required level of the company reflects the approved risk appetite. The risk appetite 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 amount of capital held by the company is regularly compared to its economic capital requirement and the intention is to manage the actual capital level to be in line with the economic capital requirement.

The capital levels of the 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 licenses. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuary of the company.

41.3.2 Statutory capital requirement

The company 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 capital adequacy requirement (CAR) and statutory surplus are determined in accordance with the requirements of the Financial Services Board ("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. 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.

Regulatory capital developments

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

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

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

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

41.3.3 Issuance of subordinated debt

On 1 December 2014, the company issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes issued were floating rate with a legal maturity of 10½ years (callable after 5½ years) and were issued at a spread of 2.3% over the 3-month Jibar interest rate.

On 15 December 2014, the R500 million subordinated notes issued by Metropolitan Life Limited in 2006 were redeemed.

The table below shows a summary of the company's subordinated unsecured callable notes in issue at 30 June 2015:

MMI Group Ltd subordinated debt					
Instrument code	**Amount issued**	**Coupon rate**	**Tenor (years)**	**Date issued**	**Coupon type**
MGL01	1000	8.50%	9.5	Mar 2006	Fixed
MMIG01	750	3-month Jibar + 1.46%	5.0	Mar 2014	Floating
MMIG02	750	10.065%	7.0	Mar 2014	Fixed
MMIG03	750	3-month JIBAR + 2.30%	5.5	Dec 2014	Floating

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

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

- A 12-year fixed rate note (callable after 7 years) of R960 million was issued at a spread of 2.73% above the risk free rate (the R2023 government bond); and
- A 15-year fixed rate note (callable after 10 years) of R270m was issued at a spread of 3.05% above the risk free rate (the R186 government bond).

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

41.4 Sources of capital utilised

The table below analyses the sources of shareholder capital utilised by the company at 30 June:

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

41.5 Regulatory capital position

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

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

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

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

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

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

41.6 Economic capital

The economic capital requirement for the company is based on an internal capital projection model (using stochastic modelling techniques). The capital allocation therefore reflects the economic capital requirement of the the company 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 (i.e. to look through the economic cycle).

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

41.7 Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS
(continued)

42 **Insurance and investment business**

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

2015	**Insurance** Rm	**Investment with DPF** Rm	**Investment** Rm	**Total** Rm
Contracts with DPF	36 557	24 339	346	61 242
Individual contracts with DPF	31 089	6 891	-	37 980
Smoothed bonus	22 020	6 891	-	28 911
Conventional with-profit	9 069	-	-	9 069
Group contracts with DPF	5 468	17 448	346	23 262
Smoothed bonus	-	15 349	-	15 349
Smoothed bonus – fully vesting	-	959	-	959
With-profit annuity	5 468	1 140	346	6 954
Market-related business	20 560	166	199 304	220 030
Individual market-related business	19 276	166	129 297	148 739
Group market-related business	1 284	-	70 007	71 291
Other business	39 679	138	8 779	48 596
Non-profit annuity business	31 555	-	2 480	34 035
Guaranteed endowments	1 053	-	6 270	7 323
Structured products	-	-	29	29
Other non-profit business	7 071	138	-	7 209
Total contract holder liabilities	96 796	24 643	208 429	329 868

2014	**Insurance** Rm	**Investment with DPF** Rm	**Investment** Rm	**Total** Rm
Contracts with DPF	38 570	23 755	-	62 325
Individual contracts with DPF	33 923	7 303	-	41 226
Smoothed bonus	24 749	7 303	-	32 052
Conventional with-profit	9 174	-	-	9 174
Group contracts with DPF	4 647	16 452	-	21 099
Smoothed bonus	-	15 422	-	15 422
Smoothed bonus – fully vesting	-	986	-	986
With-profit annuity	4 647	44	-	4 691
Market-related business	22 554	161	182 446	205 161
Individual market-related business	21 321	161	118 901	140 383
Group market-related business	1 233	-	63 545	64 778
Other business	36 959	88	8 688	45 735
Non-profit annuity business	30 142	-	2 501	32 643
Guaranteed endowments	1 251	-	5 983	7 234
Structured products	-	-	41	41
Other non-profit business	5 566	88	163	5 817
Total contract holder liabilities	98 083	24 004	191 134	313 221

42.1 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 the company has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports are submitted to the discretionary participation committee (a sub committee of the board) on an annual basis with regard to the compliance with the PPFM.

- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. The full value of the underlying assets is recognised as a liability.

- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuary is satisfied that if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The company is exposed to market and operational risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.

- Short term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.

- The major classes of smoothed bonus business are:
  - Metropolitan Retail individual smoothed bonus business (open to new business).
  - Momentum Employee Benefits smoothed bonus business (open to new business).
  - Momentum Employee Benefits with-profit annuity business (open to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
  - Momentum Retail traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
  - Momentum Retail fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).

- As at 30 June 2015, 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 shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

Market-related business

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

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

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.

- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, it will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Financial instruments

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

Structured products (financial instruments)

- The company issues tranches of term contracts whose 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+.

Other non-profit business

- These are primarily insurance contracts of varying duration as well as inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the company is 10.75% (2014: 10.65%).
- 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 1.8% (2014: 1.8%) for the company.

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Investment guarantees on death and early termination are also provided and some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantee are much less significant than the liabilities in respect of minimum guaranteed maturity values.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN110 – Allowance for embedded investment derivatives. Refer to note 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

42.2 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, audit committee and the Financial Services Board. The actuarial committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The actuarial committee has been appointed by the board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In the extreme, actual claims and benefits may exceed the liabilities. The 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 below, as well as the company's approach to the management of these risks.

42.2.1 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 actuary as being financially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract or aggregation of contracts.

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

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting these risks
  - The most significant factors that could substantially increase 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 due to exposure to a large number of claims from a single event or to a particular geographical area.

- How risks are managed:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Company practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to risk business, and enables the company to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
  - All 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 typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.
  - Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is on fully underwritten and limited underwriting products with sums assured above R50 000.
  - Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. The company's catastrophe reinsurance cover for the current financial year is R659 million (2014: R650 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The table below shows the concentration of individual insurance contract benefits by sum insured at risk.

		2015			2014	
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	**9 512 056**	**50 894**	**19 320**	6 617 882	44 802	21 575
20 001 - 50 000	**1 559 701**	**51 472**	**23 807**	1 245 452	42 906	27 016
50 001 - 100 000	**677 641**	**49 513**	**12 506**	366 207	28 963	8 932
100 001 - 200 000	**280 677**	**45 386**	**16 997**	395 260	81 602	42 956
200 001 - 500 000	**242 821**	**80 794**	**50 804**	148 874	51 941	28 776
500 001 - 1 000 000	**235 083**	**131 327**	**92 634**	233 474	130 059	93 307
>1 000 000	**408 222**	**785 069**	**441 265**	386 462	725 721	410 648
	12 916 201	**1 194 455**	**657 333**	9 393 611	1 105 994	633 210

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 mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an 'actively at work' clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the company takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.
  - Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured.
  - There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels.
  - In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

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

Lives covered by scheme	2015	2014
0-1 000	**7 232**	6 906
1 001 - 5 000	**373**	391
>5 000	**177**	190

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:

Annuity amount per annum (Rands)	2015 Number of annuitants	2015 Total amount per annum Rm	2014 Number of annuitants	2014 Total amount per annum Rm
0 - 10 000	**79 852**	334	81 288	333
10 001 - 50 000	**47 727**	1 066	47 281	1 054
50 001 - 100 000	**10 163**	705	9 326	649
100 001 - 200 000	**4 781**	656	4 163	571
>200 000	**2 488**	911	2 120	786
	145 011		144 178	

Permanent health insurance business

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

42.2.2 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 expected recoveries, 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, eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits.

How persistency 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 regards to termination rates (rates of withdrawal and lapse) based on the company'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 retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products with investment contract features is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

42.2.3 Expense risk

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

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

42.2.4 Business volume risk

There is a risk that the company may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. 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 company.

43 Financial risk inherent in consolidated collective investment schemes and fund of alternative funds

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

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

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

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

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

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

The collective investment schemes not consolidated are included in the table in note 40.1 as collective investment schemes and investments in associates designated at fair value through income.

44 Liquidity risk

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

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

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 company's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 93% (2014: 94%) of the liabilities of the company. 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 they become payable. The liquidity risk arising from the liabilities in respect of embedded investment guarantees (APN 110 liability) is managed by backing these liabilities with sufficiently liquid financial instruments.

Non-profit annuities policyholder benefits

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

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.

Unitised and smoothed-bonus policyholder benefits

These benefits are determined mainly by reference to the market value of underlying assets. On maturity of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

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

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

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

Linked and market-related policyholder benefits

These contracts do not expose the company to significant liquidity risk because liquidity loss, except those that relate to investment guarantees, are usually passed on to 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.

Smooth bonus business policyholder benefits

These contracts do not expose the company to significant liquidity risk because liquidity loss, except those that relate to investment guarantees, can usually be passed on to the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

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

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

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

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

The company holds sufficient cash and liquid marketable financial instruments in its shareholders funds to meet its commitments as and when they fall due. The investment assets backing the shareholders funds are invested in a diversified portfolio of liquid cash, floating rate instruments and listed equity instruments.

The investment mandate and guidelines that govern the investment of shareholders funds 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 company's assets are fairly liquid in order to meet the liquidity needs of obligations if the company should be required to settle earlier than expected:

Financial asset liquidity	**2015**		Restated 2014	
	%	Rm	%	Rm
High (1)	71%	**265 373**	74%	259 909
Medium (2)	26%	**96 126**	23%	79 736
Low/illiquid (3)	3%	**11 373**	3%	9 388
Other assets not included above				
- employee benefit asset		**404**		408
Total assets		**373 276**		349 441

(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).

Maturity profile of liabilities

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

2015 R million	Carrying value	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)[2]	96 796	96 796	13 708	10 314	22 391	18 825	31 558
Linked (market-related) business							
Individual	19 074	19 074	1 138	1 609	4 367	3 847	8 113
Employee benefits	1 285	1 285	-	149	456	327	353
Smoothed bonus business							
Individual	23 367	23 367	1 517	2 502	6 282	5 664	7 402
Conventional with-profit business	8 999	8 999	3 569	444	827	593	3 566
Non-profit business							
Individual	4 783	4 783	1 330	1 085	597	303	1 468
Employee benefits	2 037	2 037	71	1 097	257	208	404
Annuity business	37 251	37 251	6 083	3 428	9 605	7 883	10 252
Investment contracts with DPF (discounted cash flows)[2]	24 643	24 643	19 093	723	2 097	1 309	1 421
Linked (market-related) business							
Individual	143	143	-	27	38	46	32
Smoothed bonus business							
Individual	6 914	6 914	1 508	697	2 058	1 262	1 389
Employee benefits	16 446	16 446	16 445	(1)	1	1	-
Non-profit business							
Individual	-	-	-	-	-	-	-
Annuity business	1 140	1 140	1 140	-	-	-	-
Investment contracts (undiscounted cash flows)	208 429	208 611	105 764	4 220	13 021	10 539	75 067
Linked (market-related) business							
Individual	129 300	127 800	36 510	2 855	4 649	9 853	73 933
Employee benefits	70 007	70 007	68 711	13	69	114	1 100
Non-profit business							
Individual	6 298	7 868	98	851	6 819	99	1
Annuity business	2 824	2 936	445	501	1 484	473	33
Total policyholder liabilities under insurance and investment contracts	329 868	330 050	138 565	15 257	37 509	30 673	108 046
Financial liabilities designated at fair value through income	12 608	13 688	-	10 555	2 308	825	-
Subordinated call notes	3 320	4 377	-	1 244	2 308	825	-
Carry positions	9 288	9 311	-	9 311	-	-	-
Derivative financial instruments[3]	1 974						
Other payables at amortised cost[4]	7 040	6 794	-	6 794	-	-	-
Other liabilities[5]	4 817						
Total liabilities	356 307	350 532	138 565	32 606	39 817	31 498	108 046

Notes to the maturity profile of liabilities table:

(1) Open ended liabilities are defined as:

- policies where the policyholder is entitled to their benefit at any future point (benefits are contractually available on demand), or

- where policies do not have a specified contract term.

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

(3) Cash flows for derivative financial instruments have been disclosed on a net basis below.

(4) Other payables exclude premiums paid in advance and deferred revenue liabilities.

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

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

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

Financial liabilities designated at fair value

- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by the company. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.

Financial liabilities carried at amortised cost

- The subordinated redeemable debt was redeemed on 15 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

2014 R million	Carrying value	Total	Open ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)	98 083	98 083	5 697	11 506	23 947	19 918	37 015
Linked (market-related) business							
Individual	21 321	21 321	1 141	2 301	4 747	4 200	8 932
Employee benefits	1 233	1 233	-	143	438	314	338
Smoothed bonus business							
Individual	24 749	24 749	853	2 387	6 715	6 440	8 354
Conventional with-profit business	9 174	9 174	3 193	486	945	792	3 758
Non-profit business							
Individual	4 150	4 149	217	1 783	1 169	208	772
Employee benefits	2 235	2 236	191	1 123	336	242	344
Annuity business	35 221	35 221	102	3 283	9 597	7 722	14 517
Investment contracts with DPF (discounted cash flows)	24 004	24 004	17 834	644	2 061	1 475	1 990
Linked (market-related) business							
Individual	161	161	-	22	56	49	34
Smoothed bonus business							
Individual	7 303	7 304	1 226	630	2 025	1 447	1 976
Employee benefits	16 603	16 603	16 601	-	1	1	-
Non-profit business							
Individual	(63)	(64)	7	(8)	(21)	(22)	(20)
Annuity business	-	-	-	-	-	-	-
Investment contracts (undiscounted cash flows)	191 134	191 342	97 983	4 336	11 284	8 940	68 799
Linked (market-related) business							
Individual	118 901	117 312	35 406	2 338	3 957	7 751	67 860
Employee benefits	62 426	62 426	62 426	-	-	-	-
Non-profit business							
Individual	6 031	7 374	127	1 485	5 698	60	4
Annuity business	3 776	4 230	24	513	1 629	1 129	935
Total policyholder liabilities under insurance and investment contracts	313 221	313 429	121 514	16 486	37 292	30 333	107 804
Financial liabilities designated at fair value through income	7 380	8 284	2 592	2 434	2 357	901	-
Subordinated call notes	2 573	3 477	-	219	2 357	901	-
Carry positions	4 807	4 807	2 592	2 215	-	-	-
Derivative financial instruments	1 638						
Amortised cost	502	523	-	523	-	-	-
Subordinated redeemable debt	502	523	-	523	-	-	-
Other payables at amortised cost	6 087	5 906	-	5 906	-	-	-
Other liabilities	4 068						
Total liabilities	332 896	328 142	124 106	25 349	39 649	31 234	107 804

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the statement of financial position.

The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

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

2015 **R million**	**Carrying value**	**Total**	**0 to 1 year**	**1 to 5 years**	**> 5 years**
Derivatives held for trading					
Equity derivatives	23	7	7	-	-
Interest rate derivatives	679	449	22	1 539	(1 112)
Bond derivatives	43	42	42	-	-
Credit derivatives	(3)	(14)	5	2	(21)
Currency derivatives	(755)	(333)	(35)	(59)	(239)
	(13)	151	41	1 482	(1 372)
Derivatives held for hedging					
Fair value hedges	6	6	6	-	-
Total net undiscounted cash flow projections	(7)	157	47	1 482	(1 372)
Derivative financial instruments					
Assets	1 967				
Liabilities	(1 974)				
	(7)				

2014 **R million**	**Carrying value**	**Total**	**0 to 1 year**	**1 to 5 years**	**> 5 years**
Derivatives held for trading					
Equity derivatives	31	24	24	-	-
Interest rate derivatives	845	1 671	252	664	755
Bond derivatives	8	8	8	-	-
Credit derivatives	2	3	-	1	2
Currency derivatives	(286)	(126)	2	6	(134)
	600	1 580	286	671	623
Derivatives held for hedging					
Fair value hedges	15	15	13	2	-
Total net undiscounted cash flow projections	615	1 595	299	673	623
Derivative financial instruments					
Assets	2 253				
Liabilities	(1 638)				
	615				

45 Market risk

The key components of market risk are: price risk, interest rate risk, currency risk and property risk. Financial instruments held by the company are subject to the components of market risk as follows, with two check marks indicating high exposure and one check mark indicating medium or low exposure to the applicable risk:

	Carrying value 2015 Rm	Carrying value Restated 2014 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**58 937**	57 436	✓✓	✓	✓
Debt securities	**86 035**	74 254	✓	✓✓	✓
Funds on deposit and other money market instruments	**10 638**	12 681	✓	✓✓	✓
Unit-linked investments	**113 428**	103 361	✓✓	✓	✓
Investments in associates designated at fair value through income	**17 935**	10 575	✓✓	✓	✓
Derivative financial instruments					
Held for trading	**1 961**	2 238	✓✓	✓	✓
Held for hedging purposes	**6**	15	✓✓	✓	✓
Available-for-sale					
Equity securities	**8**	7	✓✓		
Interest in subsidiary companies	**48 456**	51 633			✓
Carried at amortised cost					
Loans and receivables					
Accounts receivable	**1 025**	1 149		✓	✓
Unsettled trades	**1 765**	413			✓
Loans	**3 978**	5 943		✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 693**	2 832		✓	✓
Cash and cash equivalents	**13 037**	15 447		✓	✓
Other assets	**13 374**	11 457	n/a	n/a	n/a
Total assets	**373 276**	349 441			

	Carrying value 2015 Rm	Carrying value 2014 Rm	Market price risk	Interest rate risk	Currency risk
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**208 429**	191 134	✓✓	✓✓	✓
Designated at fair value through income					
Subordinated call notes	**3 320**	2 573		✓	
Carry positions	**9 288**	4 807	✓	✓✓	
Derivative financial instruments					
Held for trading	**1 974**	1 638	✓✓	✓	✓
Carried at amortised cost					
Financial liabilities					
Subordinated redeemable debt	**-**	502		✓✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**1 679**	1 535			✓
Payables arising from investment contracts	**1 441**	1 014			✓
Unsettled trades	**1 500**	357			
Other payables at amortised cost	**4 306**	4 781			✓
Insurance contract liabilities	**96 796**	98 083	n/a	n/a	n/a
Investment contracts with DPF	**24 643**	24 004	✓✓	✓✓	✓✓
Other non-financial liabilities	**2 931**	2 468	n/a	n/a	n/a
Total liabilities	**356 307**	332 896			

2014 reclassification
Refer to notes 5 and 6.2 for details of the reclassification.

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

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

Furthermore there is also the reputational risk if actual investment performance is not in line with policyholders' expectations.

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

The executive Balance Sheet Management (BSM) committee is responsible for the company's market risk management, with the Board BSM committee providing oversight for market risks assumed on behalf of shareholders in the company's statement of financial position as per the MMI Shareholder ALM and Market Risk Policy.

As per the Client Investment Management Policy, the company 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. The valuation of 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 company's exposure to equity, interest rate, currency and property price risks are discussed and disclosed below.

Market risk management per product
Various product lines subject to this risk are offered, with some products closed to new business.
Individual and group contracts with discretionary paricipation features (DPF)
Assets are invested in line with specified mandates in equities (local and, for some funds, offshore), fixed-interest assets, property and cash, according to the asset manager's best investment view. Divisional Policyholder Investment Committees regularly monitor the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for each product.

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

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

- to assume lower bonuses will be declared in future in valuing the liabilities and actually declaring lower bonuses if required.
- a portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, the company has the right to remove previously declared non-guaranteed bonuses. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- a market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal 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 for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed to policyholders in the normal course of
- in very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual contracts offering investment guarantees

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

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge 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.

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

Group contracts with discretionary participation features (DPF) and continuous guarantees

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

No market value adjuster applies but allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Use is made of derivative instruments to minimise downside market risk in 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 company carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the company's investment managers, which is supported by technical as well as fundamental analysis.

Non-profit annuity business

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

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the company invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps with approximately the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The portfolio aims to minimise both of these risks. Index linked annuities, which provide increases in line with inflation, are generally matched with index linked bonds. 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 R60 million (2014: R19 million) for MMI Group Ltd.

The calculation for the company is based on the risk free yield curve. The average rate that produces the same result is 9.0% (2014: 9.0%).

Guaranteed endowments and structured products

The company issues guaranteed endowment policies – the majority of these contracts are five year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The 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 company's reinsurance policies.

Individual life risk products

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

Other non profit business
These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The liability is set equal to the discounted value of expected future cash flows (including margins) using a long-term interest rate. Any changes in long-term interest rates would therefore result in a change in the value of liabilities. The company reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed-interest investments.

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

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

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

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

Unlisted equity investment risks are managed as follows:

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

Refer to sensitivity analysis in note 45.5.

45.2 Interest rate risk

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

Exposure of financial instruments to interest rates

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

Instrument class	Carrying value	Cash flow interest rate risk	Fair value interest rate risk	No interest rate risk	Weighted average rate
2015	Rm	Rm	Rm	Rm	%
Designated at fair value through income					
Debt securities	86 035	30 199	52 808	3 028	8.0
Funds on deposit and other money market instruments	10 638	9 584	1 054	-	7.0
Derivative financial assets	1 967	-	1 967	-	n/a
Derivative financial liabilities	1 974	-	1 974	-	n/a
Cash and cash equivalents	13 037	10 162	2 859	16	4.0
Loans and receivables	6 768	709	522	5 537	5.9
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 693	-	-	2 693	0.0
	123 112	**50 654**	**61 184**	**11 274**	
2014	Rm	Rm	Rm	Rm	%
Designated at fair value through income					
Debt securities	74 254	26 044	44 856	3 354	7.0
Funds on deposit and other money market instruments	12 681	11 084	1 597	-	6.0
Derivative financial assets	2 253	-	2 249	4	n/a
Derivative financial liabilities	1 638	-	1 638	-	n/a
Cash and cash equivalents	15 447	13 975	839	633	5.0
Loans and receivables	7 505	727	501	6 277	6.1
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 832	-	-	2 832	0.0
	116,610	51,830	51,680	13,100	

Liability exposure to interest rates is reflected in notes 18 and 19. Derivative instrument exposure to interest rates is reflected in note 6.3.

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(continued)

45.3 Currency risk

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

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

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

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

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

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

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

2015	Africa	UK£	US $	Euro	Asian Pacific	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Closing exchange rate		*19.1850*	*12.1733*	*13.6512*			
Investment securities							
Designated at fair value through income							
Equity securities	-	110	237	20	-	7	374
Debt securities	-	12	1 484	647	-	-	2 143
Unit-linked investments	-	451	19 075	407	3	54	19 990
Interest in subsidiaries	49	475	16 613	278	-	-	17 415
Interest in associates	-	77	3 653	-	-	-	3 730
Derivative financial instruments	-	-	7	-	-	-	7
Loans and receivables	1	-	10	-	-	-	11
Cash and cash equivalents	-	107	379	37	1	-	524
	50	1 232	41 458	1 389	4	61	44 194
Other financial liabilities	-	-	698	-	-	-	698
	-	-	698	-	-	-	698

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Restated 2014	Africa	UK£	US $	Euro	Asian Pacific	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Closing exchange rate		*18.0649*	*10.6133*	*14.4904*			
Investment securities							
Designated at fair value through income							
Equity securities	-	106	191	24	25	12	358
Debt securities	7	10	1 238	467	1	1	1 724
Unit-linked investments	-	434	15 468	319	67	37	16 325
Interest in subsidiaries	45	320	17 276	227			17 868
Interest in associates	-	1	3 611	-	-	-	3 612
Derivative financial instruments	-	-	-	-	-	-	-
Loans and receivables	2	-	5	-			7
Cash and cash equivalents	-	121	596	4	4	(3)	722
	54	992	38 385	1 041	97	47	40 616
Other financial liabilities	-	-	286	-	-	-	286
	-	-	286	-	-	-	286

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

African exchange rates representing material balances above are:

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

45.4 Property price risk

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

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

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

	2015	2014
	Rm	Rm
Investment properties	**6 650**	4 797
Owner-occupied properties	**1 478**	1 373
Collective investment schemes > 55% property exposure (Refer note 40.1)	**3 253**	2 140
	11 381	8 310
Percentage of total assets	3.0%	2.4%

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

The company is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2015. The carrying amount of unlet and vacant investment property as at 30 June 2015 was R520.2 million (2014: R275.5 million).

45.5 Sensitivity to market risk

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

	Equity prices		Interest rates	
	Increase by 10 %	Decrease by 10 %	Increase by 100 bps	Decrease by 100 bps
2015	Rm	Rm	Rm	Rm
Increase/(decrease) in earnings per income statement	328	(324)	7	(10)
Increase/(decrease) in equity	477	(486)	(21)	20
2014				
Increase/(decrease) in earnings per income statement	327	(329)	(38)	32
Increase/(decrease) in equity	337	(337)	55	(55)

Sensitivity ranges

- These limits are set taking into account actuarial guidance relating to acceptable ranges of sensitivities within a normal asset distribution. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are by nature not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

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

Mitigation

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

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

Currency sensitivity

The impact of changes in currency on earnings and equity for the company is not considered to be material. Refer to note 45.3 for more details on the company's currency exposure.

46 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 deteriorating of credit worthiness (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 MMI group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product approval committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and policyholder investment committees are responsible for monitoring the performance.

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

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

Independent oversight is also provided by a Balance Sheet Management Committee of the board ("Board BSM Committee").

Managing credit risk

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

A Credit Approval Committee, which is a subcommittee of the Executive BSM is responsible for approving credit assets for shareholder's 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 include:

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

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

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

Concentration risk

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

Unit-linked investments

The company is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit linked investments in which the company invests. The company's exposure to these funds is classified at fund level (refer to note 40.1 for unit linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African unit trusts as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

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

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

Scrip lending

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

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

Loans and receivables

Due from agents, brokers and intermediaries

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

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

Policy loans

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

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

Reinsurance

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

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

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

Credit risk exposure

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

	2015		Restated 2014	
	Credit exposure	**Security and credit enhance-ments**	Credit exposure	Security and credit enhance-ments
	Rm	Rm	Rm	Rm
Designated at fair value through income				
Debt securities	**86 035**	**362**	74 254	358
Stock and loans to government and other public bodies	**38 406**	**-**	30 880	-
Other debt instruments	**47 629**	**362**	43 374	358
Funds on deposit and other money market instruments	**10 638**	**-**	12 681	-
Unit-linked investments (categorised as interest bearing and money market - refer note 40.1)	**13 960**	**-**	13 455	-
Collective investment schemes	**12 150**	**-**	11 526	-
Other unit-linked investments	**1 810**	**-**	2 020	-
Derivative financial instruments	**1 967**	**668**	2 253	-
Held for trading	**1 961**	**668**	2 238	-
Held for hedging purposes	**6**	**-**	15	-
Interest in subsidiary companies	**48 456**	**-**	51 633	-
Loans and receivables	**6 768**	**-**	7 505	-
Accounts receivable	**1 025**	**-**	1 149	-
Unsettled trades	**1 765**	**-**	413	-
Loans	**3 978**	**-**	5 943	-
Other receivables				
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 693**	**-**	2 832	-
Cash and cash equivalents	**13 037**	**-**	15 447	-
Total assets bearing credit risk	**183 554**	**1 030**	183 963	358

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

Financial assets and liabilities designated at fair value through income

Certain instruments in the company's statement of financial position, listed per class in the table below, that would have otherwise been classified as 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 original credit rating and the fair value based on any adjusted credit rating as observed in the market).

	Carrying value	
	2015	2014
	Rm	Rm
Assets		
Debt securities	**59 757**	58 361
Funds on deposit and other money market instruments	**10 638**	11 916
	70 395	70 277
Liabilities		
Policyholder liabilities under investment contracts	**208 429**	191 134
Subordinated call notes	**3 320**	2 573
Carry positions	**9 288**	4 807
	221 037	198 514

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

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

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

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

For OTC interest rate swaps, the company enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparties' 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.

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.

The company 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 is R221 million (2014: R198 million).

Linked notes

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

Transfers of financial assets

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

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

Offsetting

Financial assets

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

Financial assets	**Cash and Cash Equivalents**		**Derivative financial assets**	
	2015	2014	**2015**	2014
	Rm	Rm	**Rm**	Rm
Gross amounts of recognised financial assets	**13 037**	-	**1 967**	2 385
Gross amounts of recognised financial liabilities set off in the statement of financial position	-	-	-	(132)
Net amounts of financial assets presented in the statement of financial position	**13 037**	-	**1 967**	2 253
Related amounts not set off in the statement of financial position				
- Financial instruments	-	-	**(772)**	(797)
- Cash collateral received	**(668)**	-	-	-
Net amount	**12 369**	-	**1 195**	1 456

Financial liabilities	**Derivative financial liabilities**	
	2015	2014
	Rm	Rm
Gross amounts of recognised financial liabilities	**1 974**	1 770
Gross amounts of recognised financial assets set off in the statement of financial position	-	(132)
Net amounts of financial liabilities presented in the statement of financial position	**1 974**	1 638
Related amounts not set off in the statement of financial position		
- Financial instruments	**(772)**	(797)
- Cash collateral received	**(668)**	-
Net amount	**534**	841

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 195 million (2014: R1 188 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceed the policy loan value.

Other receivables

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

Credit quality

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

Rating definitions

AAA - National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.
AA - National ratings denote a very strong credit risk relative to all other issuers.
A - National ratings denote a strong credit risk relative to all other issuers.
BBB - National ratings denote an adequate credit risk relative to all other issuers.
BB - National ratings denote a fairly weak credit risk relative to all other issuers.
B - National ratings denote a significantly weak credit risk relative to all other issuers.
CCC - National ratings denote an extremely weak credit risk relative to other issuers. [2]
Unrated - The company invests in unrated assets where investment mandates allow for this. These investments are however subject to internal credit assessments.

2015	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC Rm	Unrated Rm	Total Rm
Debt securities - Stock and loans to government and other public bodies	26 568	4 327	7 511	-	-	-		-	38 406
Debt securities - other debt instruments	8 554	5 848	28 930	1 930	287	55	1 058	967	47 629
Cash and cash equivalents and funds on deposit	2 231	7 425	13 618	268	-	-	1	132	23 675
Derivative financial instruments	455	74	1 430	-	-	-	-	8	1 967
Other unrated instruments									
Interest in subsidiary companies [1]	-	-	-	-	-	-	-	48 456	48 456
Loans and other receivables	-	-	-	-	-	-	-	6 768	6 768
Other receivables	-	-	-	-	-	-	-	2 693	2 693
Unit-linked investments	-	-	-	-	-	-	-	13 960	13 960
	37 808	17 674	51 489	2 198	287	55	1 059	72 984	183 554

Restated 2014	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC Rm	Unrated Rm	Total Rm
Debt securities - Stock and loans to government and other public bodies	17 407	11 825	1 648	-	-	-	-	-	30 880
Debt securities - other debt instruments	6 789	25 831	8 511	781	38	3	-	1 421	43 374
Cash and cash equivalents and funds on deposit	2 275	21 427	2 433	169	-	-	-	1 824	28 128
Derivative financial instruments	380	1 868	-	-	-	-	-	5	2 253
Other unrated instruments									
Interest in subsidiary companies [1]	-	-	-	-	-	-	-	51 633	51 633
Loans and other receivables	-	-	-	-	-	-	-	7 505	7 505
Other receivables	-	-	-	-	-	-	-	2 832	2 832
Unit-linked investments	-	-	-	-	-	-	-	13 455	13 455
	26 851	60 951	12 592	950	38	3	-	82 578	183 963

(1) Interest in subsidiary companies include R45 063 million (2014 (restated): R48 050 million) relating to collective investment schemes which are exposed to minimal credit risk.
(2) ABIL and its various subsidiaries was placed under curatorship on 10 August 2014. These intruments are classified as CCC in the current year.

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

Credit quality of reinsurers

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

	2015		2014	
Reinsurer	**Reinsured portion - %**	**Credit rating**	Reinsured portion - %	Credit rating
Swiss Re	24%	AA-	26%	A
General Cologne Re	22%	AA+	24%	AA
Hannover Re	5%	AA-	6%	A
RGA Re	6%	AA-	6%	AA
Munich Re	18%	AA-	17%	AA
Other	25%	-	21%	-
	100%		100%	

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

2015	**0 – 90 days Rm**	**90 days - 1 year Rm**	**1 - 5 years Rm**	**> 5 years Rm**	**Total Rm**
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	**10**	**7**	**28**	**-**	**45**
Accounts receivable	**292**	**182**	**27**	**-**	**501**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**611**	**6**	**1**	**19**	**637**
	913	**195**	**56**	**19**	**1 183**
2014					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	88	75	37	2	202
Accounts receivable	94	395	6	1	496
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	619	60	134	70	883
	801	530	177	73	1,581

47 VALUATION TECHNIQUES

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

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

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

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

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

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

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2.

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

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

There were no significant changes in the valuation methods applied since the prior year.

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

Description	Fair value at 30 June 2015 Rm	Fair value at 30 June 2014 Rm	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets						
Securities designated at fair value through income						
Equity securities						
Unlisted	**166**	688	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
			Mark to model	Adjusted price earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the PE multiple the greater the fair value
Debt securities						
Other debt instruments						
Local listed	**65**	74	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets the greater the fair value
Unlisted	**3 661**	3049	Discounted cash flow	Nominal interest rate	5.8% to 10.04% 6.75% to 14.01%	The higher the nominal interest rate the lower the fair value of the assets
			Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
Unit linked investments						
Collective investment schemes						
Foreign unlisted unquoted	**90**	85	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
Other unit-linked investments						
Local unlisted unquoted	**2 019**	2159	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
				Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions / net cash flows and period since last valuation
	6 001	6055				
Other	**144**	7				
	6 145	6062				
Financial liabilities						
Investment contracts designated at fair value through income	**144**	152	Asset and liability matching method	Assets value	Unit price	The asset value increase will increase the fair value of the liability
	144	152				

There were no significant changes in the valuation methods applied since the prior period.

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

2015	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	185 557	95 271	6 145	286 973
Equity securities				
Local listed	58 309	-	-	58 309
Foreign listed	462	-	-	462
Unlisted	-	-	166	166
Debt securities				
Stock and loans to government and other public bodies				
Local listed	26 388	9 187	-	35 575
Unlisted	-	2 831	-	2 831
Other debt instruments				
Local listed	-	21 771	65	21 836
Foreign listed	-	89	-	89
Unlisted	-	22 043	3 661	25 704
Funds on deposit and other money market instruments	-	10 638	-	10 638
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	71 240	-	50	71 290
Foreign unlisted or listed quoted	10 604	9 561	-	20 165
Foreign unlisted unquoted	-	322	90	412
Other unit-linked investments				
Local unlisted or listed quoted	695	7 376	-	8 071
Local unlisted unquoted	-	10 191	2 019	12 210
Foreign unlisted unquoted	-	1 262	17	1 279
Foreign unlisted or listed quoted	1	-	-	1
Investments in associates designated at fair value through income	17 858	-	77	17 935
Derivative financial instruments	73	1 894	-	1 967
Held for trading	73	1 888	-	1 961
Held for hedging purposes	-	6	-	6
Available-for-sale	4	-	4	8
Equity securities				
Local listed	4	-	-	4
Unlisted	-	-	4	4
Interest in subsidiary companies	45 006	-	3 450	48 456
Designated at fair value	-	-	3 393	3 393
Collective investment schemes	45 006	-	57	45 063
Non-financial assets				
Owner-occupied properties	-	-	1 478	1 478
Investment properties	-	-	6 650	6 650
	230 640	**97 165**	**17 727**	**345 532**

There were no significant transfers between level 1 and level 2 assets in the current year. In the prior year, listed government stock of R626 million was transferred from level 2 to level 1 assets in line with classification policy. The timing of the transfers are deemed to have occurred at the beginning of the year.

Restated 2014	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	167 826	80 516	6 062	254 404
Equity securities				
Local listed	56 390	-	-	56 390
Foreign listed	358	-	-	358
Unlisted	-	-	688	688
Debt securities				
Stock and loans to government and other public bodies				
Local listed	21 420	6 404	-	27 824
Unlisted	-	3 053	3	3 056
Other debt instruments				
Local listed	-	21 610	74	21 684
Foreign listed	-	78	-	78
Unlisted	-	18 563	3 049	21 612
Funds on deposit and other money market instuments	-	12 681	-	12 681
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	64 596	17	-	64 613
Foreign unlisted or listed quoted	17 010	-	-	17 010
Foreign unlisted unquoted	-	410	85	495
Other unit-linked investments				
Local unlisted or listed quoted	1 379	6 234	-	7 613
Local unlisted unquoted	-	10 173	2 159	12 332
Foreign unlisted unquoted	-	1 293	4	1 297
Foreign unlisted or listed quoted	1	-	-	1
Investments in associates designated at fair value through income	10 575	-	-	10 575
Derivative financial instruments	1	2 252	-	2 253
Held for trading	1	2 237	-	2 238
Held for hedging purposes	-	15	-	15
Available-for-sale	3	-	4	7
Equity securities				
Local listed	3	-	-	3
Unlisted	-	-	4	4
Interest in subsidiary companies	48 050	-	3 583	51 633
Designated at fair value	-	-	3 583	3 583
Collective investment schemes	48 050	-	-	48 050
Non-financial assets				
Owner-occupied properties	-	-	1 373	1 373
Investment properties	-	-	4 797	4 797
	219 783	82 768	15 819	318 370

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

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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

	Financial instruments								Non-financial instruments		
	Designated at fair value through income					Derivative financial instruments	Available-for-sale				
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Interest in subsidiary companies	Held for trading	Equity securities	Debt securities	Owner-occupied properties	Investment properties	Total
2015	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Opening balance	688	3 126	2 248	-	3 583	-	4	-	1 373	4 797	15 819
Transfer from/(to) other asset classes	-	-	-	-	-	-	-	-	32	(32)	-
Total realised gains/(losses) in net realised and fair value gains in the income statement	338	27	26	-	6	-	-	-	(37)	-	360
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	(6)	(244)	116	-	(896)	-	-	-	-	286	(744)
Total gains/(losses) in other comprehensive income	-	-	-	-	717	-	-	-	124	-	841
Accrued interest in investment income in the income statement	-	26	-	-	-	-	-	-	-	-	26
Purchases	130	764	729	-	525	-	-	-	6	1 641	3 795
Sales/settlements – at fair value	(984)	(602)	(990)	-	(497)	-	-	-	(20)	(42)	(3 135)
Transfers into level 3	-	906	47	77	12	-	-	-	-	-	1 042
Transfers out of level 3	-	(277)	-	-	-	-	-	-	-	-	(277)
Closing balance	166	3 726	2 176	77	3 450	-	4	-	1 478	6 650	17 727

	Financial instruments								Non-financial instruments		
	Designated at fair value through income					Derivative financial instruments	Available-for-sale				
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Interest in subsidiary companies	Held for trading	Equity securities	Debt securities	Owner-occupied properties	Investment properties	Total
2014	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Opening Balance	825	4 704	2 094	41	3 238	-	4	374	1 240	4 511	17 031
Transfer from/(to) other asset classes	-	-	41	(41)	-	-	-	-	123	(123)	-
Total realised gains/(losses) in net realised and fair value gains in the income statement	3	23	(51)	-	-	-	-	-	(37)	-	(62)
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	155	551	203	-	(107)	-	-	-	-	323	1 125
Total gains/(losses) in other comprehensive income	-	-	-	-	60	-	-	-	43	-	103
Accrued interest in investment income in the income statement	-	59	13	-	-	-	-	-	-	-	72
Purchases	229	635	167	-	194	-	-	-	4	86	1 315
Sales/settlements - at fair value	(524)	(1 970)	(269)	-	154	-	-	(374)	-	-	(2 983)
Transfers into level 3	-	301	50	-	44	-	-	-	-	-	395
Transfers out of level 3	-	(1 177)	-	-	-	-	-	-	-	-	(1 177)
Cloaing balance	688	3 126	2 248	-	3 583	-	4	-	1 373	4 797	15 819

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

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

	Financial instruments								
	Designated at fair value through income					Derivative financial instruments	Available-for-sale		
	Equity securities	Debt securities	Unit-linked investments	Investments in associates Unit-linked investments	Interest in subsidiary companies	Held for trading	Equity securities	Debt securities	Total
2015	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Carrying value	**166**	**3 726**	**2 176**	**77**	**3 450**	**-**	**4**	**-**	**9 599**
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	10% increase/ (decrease) in unit price	10% increase/ (decrease) in markets		Not sensitive	N/A	
Effect of increase in assumption	**17**	**(37)**	**218**	**8**	**345**	**-**	**-**	**-**	**551**
Effect of decrease in assumption	**(17)**	**37**	**(218)**	**(8)**	**(345)**	**-**	**-**	**-**	**(551)**
2014									
Carrying value	688	3 126	2 248	-	3 583	-	4	-	9 649
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	N/A	10% increase/ (decrease) in markets		Not sensitive	N/A	
Effect of 10% increase in assumption	69	(112)	185	-	358	-	-	-	500
Effect of 10% decrease in assumption	(69)	106	(185)	-	(358)	-	-	-	(506)

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

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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

2015	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**
Investment contracts designated at fair value through income	-	208 285	144	208 429
Financial liabilities designated at fair value through income	-	12 608	-	12 608
Subordinated call notes	-	3 320	-	3 320
Carry positions	-	9 288	-	9 288
Derivative financial instruments	64	1 910	-	1 974
Held for trading	64	1 910	-	1 974
	64	**222 803**	**144**	**223 011**

2014				
Investment contracts designated at fair value through income	-	190 982	152	191 134
Financial liabilities designated at fair value through income	-	7 380	-	7 380
Subordinated call notes	-	2 573	-	2 573
Carry positions	-	4 807	-	4 807
Derivative financial instruments	-	1 638	-	1 638
Held for trading	-	1 638	-	1 638
	-	200 000	152	200 152

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

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

	Investment contracts designated at fair value through income	
	2015 Rm	2014 Rm
Opening Balance	**152**	498
Total realised gains/losses in net realised and fair value gains in the income statement	**1**	5
Total unrealised gains/losses in net realised and fair value gains in the income statement	**4**	1
Purchases/issues	**-**	165
Settlements – at fair value	**-**	(498)
Contract holder movements		
Benefits paid	**(19)**	(28)
Investment return	**6**	9
Closing Balance	**144**	152

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R14.4 million (2014: R15.3 million) and R14.4 million (2014: R15.3 million) respectively.

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

	2015 Carrying value	2015 Fair value	2014 Carrying value	2014 Fair value
	Rm	Rm	Rm	Rm
Assets				
Loans and receivables	**6 768**	**6 768**	7 505	7 505
Loans	**3 978**	**3 978**	5 943	5 943
Unsettled trades	**1 765**	**1 765**	413	413
Accounts receivable	**1 025**	**1 025**	1 149	1 149
Cash and cash equivalents	**13 037**	**13 037**	15 447	15 447
	19 805	**19 805**	22 952	22 952

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 company's policy loan values are based on the surrender values.
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

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

	2015 Carrying value	2015 Fair value	2014 Carrying value	2014 Fair value
	Rm	Rm	Rm	Rm
Liabilities				
Investment contracts with DPF	24 643	24 643	24 004	24 004
Amortised cost	-	-	502	502
Subordinated redeemable debt	-	-	502	502
Other payables	8 926	8 926	7 687	7 687
Payables arising from investment contracts	1 441	1 441	1 014	1 014
Other payables	7 485	7 485	6 673	6 673
	33 569	**33 569**	32 193	32 193

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 fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The debt was redeemed during the current year.
- For payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

SHAREHOLDER DIARY

Financial year-end	30 June	
Reporting	Annual financial statements published	8 September 2015
	Annual general meeting	20 November 2015
Ordinary dividends	**Interim**	
	Declared	3 March 2015
	Paid	27 March 2015
	Final	
	Declared	8 September 2015
	Paid	1 October 2015

ADMINISTRATION

MMI GROUP LTD
Company secretary and registered office
Maliga Chetty
268 West Avenue
Centurion
Telephone: +27 12 684 4255
Maliga.Chetty@mmiholdings.co.za

Company registration number
1904/002186/06

Internet address
https://www.momentum.co.za/
http://www.metropolitan.co.za/

Auditors
PricewaterhouseCoopers Inc

ANNEXURE A

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

	Carrying value	
		Restated
	2015	2014
	Rm	Rm
Ampersand Momentum CPI Plus 2% Fund of Funds (A)	677	657
Ampersand Momentum CPI Plus 4% Fund of Funds (A)	916	845
Ampersand Momentum CPI Plus 6% Fund of Funds (A)	310	304
Caleo Global Flexible Fund IC Limited	148	-
Contego B3 MET Protected Balanced Fund	17	-
Contego B5 MET Protected Equity Fund (A)	80	85
FGAM Global Cautious Fund IC Ltd, Reinvesting	145	127
Fintax International Balanced Fund IC Ltd, Accumulating	246	256
Fintax International Growth Fund IC Ltd, Accumulating	123	92
Flagship International Flexible Fund IC Ltd Class A USD, Accumulating	174	143
Imara MET Balanced Fund	51	-
Imara MET Income Fund	50	66
KIEF 2	46	40
Mazi Capital MET Property Fund (A)	-	1
MET Odyssey Balanced Fund of Funds	102	238
MET Odyssey Conservative Fund of Funds	34	-
MET Worldwide Opportunities fund of fund	-	184
Momentum - Global Balanced Fund IC Ltd, Accumulating	210	184
Momentum - Sterling Balanced Fund IC Ltd	-	34
Momentum Africa Fixed Income	-	110
Momentum Balanced Fund (A)	3 521	3 203
Momentum Best Blend Balanced Fund of Funds (B1)	1 066	826
Momentum Best Blend Flexible Income ABLI Retention Fund	12	-
Momentum Best Blend Flexible Income Fund (B1)	278	404
Momentum Best Blend Multifocus Fund of Funds (A)	1 469	1 534
Momentum Best Blend Specialist Equity Fund (A)	453	414
Momentum Best Blend Stable Fund of Funds (B1)	110	86
Momentum Capital Enhancer Fund (A)	159	254
Momentum Conservative Fund B5	361	321
Momentum Factor 3 Fund of Funds (A)	255	151
Momentum Factor 5 Fund of Funds (A)	500	310
Momentum Factor 7 Fund of Funds (A)	601	321
Momentum Factor Equity Fund of Funds (A)	29	17
Momentum Flexible Fund (A)	120	139
MOMENTUM GF GLOBAL CONTRARIAN FUND	139	384
MOMENTUM GF GLOBAL FRANCHISE FUND	-	203
Momentum IF Africa Ex-S. Africa Eq A USD	106	104
Momentum IF Euro Money Market EUR	278	227
Momentum IF Gl Money Market	-	263
Momentum IF Global Fixed Income A USD	579	662
Momentum IF USD Money Market	326	-

ANNEXURE A
(continued)

	Carrying value 2015 Rm	Restated 2014 Rm
Momentum Industrial Fund (A)	**41**	130
Momentum International Balanced Feeder Fund (A)	**118**	113
Momentum International Income Fund (A)	**70**	73
Momentum MF Global Aggressive	**5 823**	5 859
Momentum MF Global Balanced A USD	**6 683**	7 086
Momentum MF Global Moderate	**586**	391
Momentum MF International Equity A USD	**855**	951
Momentum MoM Active Bond Fund (B1)	**544**	521
Momentum MoM Emerging Manager Growth Fund (B1)	**1 337**	1 066
Momentum MoM Emerging Manager Value Fund (B1)	**-**	1 079
Momentum MoM Focused Equity Fund (B1)	**368**	677
Momentum MoM High Growth Fund (B1)	**1 994**	1 727
Momentum MoM Macro Growth Fund (B1)	**193**	178
Momentum MoM Macro Value Fund (B1)	**2 007**	1 805
Momentum MoM Managed Bond Fund (B1)	**227**	207
Momentum MoM Money Market Fund B4	**375**	405
Momentum MOM Opportunistic Equity Fund (A)	**-**	269
Momentum MoM Property Equity Fund (B1)	**1 649**	1 245
Momentum MoM Real Return Fund (B1)	**1 083**	1 389
Momentum MOM Specialist Equity Fund (A)	**1 416**	690
Momentum MoM Ultra Long Term Value Fund (B1)	**2 406**	2 091
Momentum Money Market Fund (A)	**-**	3 423
Momentum Optimal Yield Fund (A)	**485**	572
Momentum Positive Return Fund (A)	**130**	147
Momentum Private Equity 2008 Feeder	**420**	412
Momentum Property Fund (A)	**589**	485
Momentum Small/Mid-Cap Fund (A)	**149**	225
Platinum MET Balanced Prudential Fund of Funds (A)	**228**	180
Platinum MET Income Provider Fund of Funds A	**86**	77
Sasfin MET Balanced Fund Class B	**47**	39
Sasfin MET Prudential Fund (A)	**191**	142
Seed Absolute Return Fund	**115**	-
Select Manager MET Cautious Fund of Funds (A)	**-**	132
Select Manager MET Flexible Growth Fund of Funds (A)	**235**	222
Select Manager MET Global Moderate Fund of Funds (A)	**133**	133
Select Manager MET Prudential Fund of Funds (A)	**304**	315
Stewart MET Absolute Return Fund of Fund (A)	**44**	52
Stewart MET Macro Equity Fund of Funds (A)	**173**	162
Warwick MET Managed Fund Class A	**222**	153
Warwick MET Managed Fund of Funds A	**46**	38
Total investment in CIS subsidiaries	**45 063**	48 050

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

ANNEXURE B

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

	Carrying value 2015 Rm	Restated 2014 Rm
36One MET Equity Fund (A)	**166**	196
36One MET Flexible Opportunity Fund (A)	**156**	215
ABSA Prudential Fund Of Funds	**3**	-
AMF MET Managed Fund (A)	**16**	9
Anchor BCI Managed Fund	**25**	-
Anchor MET Flexible Fund	**3**	-
API BCI Worldwide Opportunities Fund of Funds	**51**	-
AS Forum MET Aggressive Fund of Funds	**278**	-
AS Forum MET Moderate Fund of Funds	**245**	-
Ashburton Defensive Fund	**277**	-
Ashburton Growth Fund	**374**	-
Baroque MET Moderato Fund of Funds	**79**	-
BlueAlpha MET All Seasons Funds (A)	**-**	3
Bovest BCI Conservative Fund of Funds	**35**	-
Bovest BCI Managed Fund of Funds	**98**	-
Bovest BCI Worldwide Flexible Fund of Funds	**26**	-
BRENTHURST GLB BAL FD	**4**	2
Cadiz Equity Ladder Fund	**67**	-
Caleo Global Balanced Fund IC Limited	**-**	46
Cannon MET Equity Fund (A)	**4**	4
Capita BCI Balanced Fund	**123**	-
Capita BCI Cautious Fund	**148**	-
Capita BCI Real Income Fund	**24**	-
Catalyst Global Real Estate Fund IC Limited Class A	**43**	-
Centaur MET Balanced Fund (A)	**-**	13
Centaur MET Flexible Fund (A)	**-**	135
Clarus MET Equity Value Fund (A)	**10**	9
Clarus MET Optimal Fund (A)	**-**	1
Clarus MET Property Fund (A1)	**24**	20
Clarus MET Real Income Fund (A)	**-**	12
Clarus MET Wealth Accumulator Fund of Funds (A)	**5**	4
Clarus MET Wealth Creator Fund of Funds (A)	**23**	21
Clarus MET Wealth Preserver Fund of Funds (A)	**21**	20
Contego B1 MET Income Plus Fund	**11**	-
Contego B2 MET Protected Income Fund (A)	**6**	7
Contego B3 MET Protected Balanced Fund (A)	**-**	20
Contego B6 MET Growth Plus Fund	**1**	-
Coronation Optimal Income Fund (A)	**-**	3
Counterpoint MET Balanced Plus	**8**	5
Counterpoint MET Cautious Fund	**21**	11

ANNEXURE B
(continued)

	Carrying value	
		Restated
	2015	2014
	Rm	Rm
Counterpoint MET Enhanced Income Fund	**4**	5
Counterpoint MET Moderate Fund	**1**	1
Counterpoint Value Fund	**5**	6
Discipline + Diversified Balanced Fund IC Ltd E GBP Hedged Shares, Accumulating	**1**	1
Dotport MET Prudential Fund of Funds	**182**	-
Element Earth Equity Fund	**29**	-
Element Islamic Equity Fund	**130**	-
Fairtree Equity Prescient Fund (A1)	**1 536**	1 031
Fairtree Flexible Balanced Prescient Fund	**29**	-
FG IP Jupiter Income Fund of Funds (A)	**1**	-
FGAM GLOBAL GROWTH FUND	**185**	129
Flagship IP Worldwide Flexible Fund	**83**	-
GCI MET Balance Fund of Funds	**79**	78
GCI MET Balanced Plus Fund	**6**	-
GCI MET Flexible Fund of Funds (A)	**10**	9
GCI MET Stable Fund of Funds (A)	**12**	14
GCI MET Worldwide Flexible Fund (A)	**8**	7
Imalivest MET Flexible Fund (A)	**1**	1
Imalivest MET Worldwide Flexible Fund	**1**	-
Imara MET Equity Fund (A)	**80**	107
Lynx Global Flexible Fund IC Limited USD Class (A)	**60**	140
Mazi Capital MET Equity Fund (B2)	**-**	31
MET Capital Preserver Plus Fund (A)	**-**	6
MET General Equity Fund (A)	**35**	35
MET Income Plus Fund (A)	**46**	57
MET Worldwide Opportunities fund of fund	**204**	-
MET Odyssey Conservative Fund of Funds (A)	**-**	30
MI-PLAN IP Inflation Plus 7	**79**	-
Momentum - Global Cautious Fund IC Ltd Class A, Accumulating	**27**	14
Momentum - Global Equity Fund IC Ltd Class A, Accumulating	**-**	30
Momentum - Global Growth Fund IC Ltd Class A	**56**	-
Momentum - Global Managed Fund IC Ltd Class A, Accumulating	**84**	41
Momentum - Sterling Balanced Fund IC Ltd	**25**	-
Momentum Africa Equity Fund	**150**	200
Momentum Bond ABIL Retention Fund	**3**	-
Momentum Bond Fund (A)	**168**	175
Momentum Diversified Yield ABIL Retention Fund	**5**	-
Momentum Diversified Yield Fund (A)	**54**	66
Momentum Enhanced Yield ABIL Retention Fund	**29**	-
Momentum Enhanced Yield Fund (A)	**887**	955

ANNEXURE B
(continued)

	Carrying value 2015 Rm	Restated 2014 Rm
Momentum Equity Fund (A)	384	380
Momentum Financials Fund (A)	55	46
MOMENTUM GF GLOBAL FRANCHISE FUND	147	-
Momentum IF Global Emerging Markets Equity	75	71
Momentum IF Global Equity	2 919	3 103
Momentum IF Global Spread Capture A USD	-	1
Momentum IF Global Spread Capture Feeder Fund IC Ltd USD	-	3
Momentum Income Plus ABIL Retention Fund	8	-
Momentum Income Plus Fund (A)	590	614
Momentum Inflation Linked Bond ABIL Retention Fund	1	-
Momentum Inflation Linked Bond Portfolio	54	61
Momentum International Conservative Feeder Funds	19	16
Momentum International Equity Feeder Fund	338	337
Momentum Investment Funds SICAV-SIF Global Emerging Markerts Equity Fund A	1	-
Momentum Maximum Income ABIL Retention Fund	5	-
Momentum Maximum Income Fund (A)	154	184
Momentum MOM Opportunistic Equity Fund	197	-
Momentum Money Market ABIL Retention Fund	24	-
Momentum Money Market Fund (A)	2 806	-
Momentum Resources Fund (A)	17	18
Momentum Top 25 Fund (A)	139	127
Momentum Top 40 Index Fund (A)	78	81
Momentum Value Fund (A)	45	83
Montrose MET Moderate Fund of Funds A	65	35
Multi Asset IP Balanced Defensive Fund	6	-
NeFG MET Equity Fund	21	-
Northstar MET Managed Fund (A)	43	41
OASIS BALANCED STABLE FUND OF FUNDS	41	-
Oasis General Equity Fund	225	229
Perpetua MET Balanced Fund	1	-
Perpetua MET Equity Fund	1	-
Platinum MET Worldwide Flexible Fund (A)	19	19
PSG Konsult Houghton Global High Growth Portfolio IC Limited Class B GBP, Accumulating	3	-
PSG Konsult Houghton Global High Growth Portfolio IC Limited Class B USD, Accumulating	1	-
PSG Konsult Houghton Global Income Portfolio IC Limited Class A GBP, Accumulating	5	-
PSG Konsult Houghton Global Income Portfolio IC Limited Class B GBP, Accumulating	1	-
PSG Mutual Fund ICC Limited Global Equity Sub-Fund USD	4	-
PSG Mutual Fund ICC Limited Global Flexible Fund IC Limited Class A	7	-
Quantum Balanced Fund of Funds (A)	84	-
Quantum Capital Plus FoF	117	-

ANNEXURE B
(continued)

	Carrying value	
		Restated
	2015	2014
	Rm	Rm
Rebalance BCI Inflation Plus 3 Fund	**120**	-
Rebalance BCI Inflation Plus 5 Fund	**168**	-
Rebalance BCI Inflation Plus 7 Fund	**62**	-
Renaissance Global Best Ideas Fund IC Limited A USD, Accumulating	**44**	-
Rootstock MET Worldwide Flexible Fund (A)	**50**	76
SA Asset Management BCI Cautious Fund	**24**	-
SA Asset Management BCI Managed Fund	**81**	-
SA Asset Management BCI Moderate Fund	**76**	-
Saffron MET Inflation Linked Bond	**12**	11
Saffron MET Opportunity Income ABIL Retention Fund	**1**	-
Saffron MET Opportunity Income Fund (B1)	**46**	22
Sasfin MET Equity Fund (A)	**6**	4
Sasfin MET Stable Fund (A)	**15**	13
Satrix Rafi40 Index Fund	**91**	-
Seed Absolute Return Fund (A)	**-**	47
Seed Flexible Fund (A)	**61**	50
Select Manager MET Cautious Fund of Funds (A)	**108**	-
Select Manager MET Equity Fund of Funds (A)	**-**	13
Select Manager MET Flexible Equity Fund (A)	**17**	5
Select Manager Money Market Fund	**21**	28
STANLIB Africa Equity Fund	**17**	-
Third Circle MET Defensive Fund of Funds (R)	**132**	109
Third Circle MET Flexible Fund of Funds (A)	**75**	65
TRIATHLON IP FUND CLASS A1	**55**	-
True North IP Enhanced Property Fund	**34**	-
True North IP Flexible Equity Fund	**75**	-
Truffle Institutional Equity Fund E	**1 102**	667
UAM BCI Balanced Fund	**21**	10
VPFP International Cautious Fund IC Ltd Class B, Accumulating	**8**	10
VPFP International Growth Fund IC Ltd Class B, Accumulating	**25**	20
Warwick MET Enhanced Income Fund (A)	**17**	51
Warwick MET Property Fund	**1**	-
Total investment in CIS associates	**17 935**	10 575

2014 reclassification

Refer to notes 5 and 6.2 for details of the reclassification.

Annexure C, which represents the detailed audited director's remuneration disclosure per director as required under section 30 of the Companies Act has been treated as confidential information and has been removed from the distribution copies of the annual financial statements. It is available on request from the company secretary of MMI Group Limited's holding company, MMI Holdings Limited, at the following number 012 671 8911.