momentum

To Whom It May Concern

Please find enclosed the annual financial statements of Momentum Group Limited for the year ended 30 June 2012.

The detailed director's remuneration disclosure per director as required under section 30 of the Companies Act 2008, and as was included as Annexure C in the financial statements audited by PricewaterhouseCoopers Inc and to which their audit opinion refers, has been treated as confidential information and has been removed from this copy of the annual financial statements. The Annexure is available on request from the company secretary of our holding company, MMI Holdings Limited, at the following number 012 - 671 8911.

Regards

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MOMENTUM GROUP LIMITED
ANNUAL FINANCIAL STATEMENTS

30 June 2012

MOMENTUM 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; opinions are obtained from the statutory actuary of the life insurance company and the external auditors of the company.
- 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, 2008, and the Long-term Insurance Act, 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 audit report is presented on page 4.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the board of directors on 11 September 2012 and are signed on its behalf by:

JJ Njeke
Chairman
Centurion, 11 September 2012

NAS Kruger
Chief executive officer
Centurion, 11 September 2012

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 2008, I certify that for the year ended 30 June 2012 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.

Francois Jooste
Company secretary
Centurion, 11 September 2012

CERTIFICATE BY THE STATUTORY ACTUARY

Financial position of Momentum Group Limited

I hereby certify that:

- The valuation on the Statutory basis of Momentum Group Limited as at 30 June 2012, 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, 11 September 2012

AUDIT COMMITTEE REPORT

The audit committee of MMI Holdings Limited ("MMI"), the company's holding company, acts also as audit committee for the company.

The MMI audit committee has terms of reference which was approved by the MMI Board. The MMI audit committee has regulated its affairs in compliance with the terms of reference and has discharged all of the responsibilities set out therein.

The terms of reference, including roles and responsibilities, were aligned with the requirements of King III and the new Companies' Act, 2008. 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 Intergrated Report.

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

The audit committee has nominated, for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm and Mrs Alsue du Preez as the designated auditor responsible for performing the functions of auditor, for the 2013 year.

The MMI 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 MMI group finance director.

Nothing has come to the attention of the audit committee to indicate a material breakdown in the internal financial controls of the company during the financial year. This assessment is based on the results of a documented review performed at MMI Group level, information and explanations given by management and the MMI group internal audit function as well as discussions with the independent external auditors on the results of their audits.

The board has assigned oversight of the company's risk management function to the risk and compliance committee. The chairperson of the risk and compliance committee is also a member of the audit committee to ensure that information relevant to these committees is transferred effectively. The audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as it relates to financial reporting.

The MMI audit committee considers that the annual financial statement complies, in all material respects, with the requirements of the Companies Act, 2008, and International Financial Reporting Standards (IFRS).

FJC Truter
Chairman
Centurion, 11 September 2012

pwc

INDEPENDENT AUDITOR'S REPORT
to the shareholder of Momentum Group Limited

We have audited the financial statements of Momentum Group Limited set out on pages 9 to 13, 17 to 136, 138 to 142 which comprise the statement of financial position as at 30 June 2012, and 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 misstatements, 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 Momentum Group Limited as at 30 June 2012, 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 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
PricewaterhouseCoopers Inc.
Director: A du Preez
Registered Auditor, 11 September 2012

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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.

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 account (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 PGN104 – Valuation 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 with Rand Merchant Bank. These agreements contain 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 PGN104 – Valuation of long-term insurers. These margins are explicitly prescribed and held as a buffer to cover uncertainties with regard to the best-estimate assumptions used in the financial soundness valuation basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Core headline earnings
Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on investment assets, investment variances and basis and other changes which can be volatile, secondary tax on companies, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business. STC has been added back as it will fall away and be replaced by the new dividends withholding tax effective 1 April 2012.

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

Covered business
Covered business is defined as long-term insurance business recognised in the company integrated report. This business covers individual stable bonus, linked and market-related business, reversionary bonus business, company stable 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 interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

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

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

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

Embedded value earnings
Embedded value earnings are defined as the change in embedded value for the period, after adjustment for any capital movements such as dividends paid and capital injections.

Financial soundness valuation (FSV)
The financial soundness valuation basis is prescribed by PGN104 – Valuation 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).

DEFINITIONS
(continued)

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.

Notional value
The notional value is a numeric representation of the extent of the investment in a derivative financial instrument with disregard to fair value.

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 relating to maturity profiles includes financial instruments with no fixed maturity date.

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

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

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

Present value of future premiums (PVP)
The 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.

Professional guidance notes (PGN)
The Actuarial Society of South Africa (ASSA) issues professional guidance notes applicable to various areas of financial reporting and practice that require actuarial input. The PGNs are available on the ASSA website (www.actuarialsociety.org.za).

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.

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

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

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

Statutory basis
The statutory basis is the valuation basis and methodology used for statutory reporting purposes, as determined by the FSB in its board notice "Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers" (or equivalent regulations in non-South African operations). These requirements are largely based on financial soundness valuation principles. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of actuarial values of assets and liabilities.

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

Useful life
Useful life is the period over which an asset is expected to be available for use by the 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 2012	30 June 2011
Total assets per company balance sheet	1	**203 921**	**194 708**
Total liabilities per company balance sheet	2	**193 351**	**184 577**
Liabilities under insurance contracts		43 969	42 428
Liabilities under investment contracts		134 148	122 925
Current and other liabilities		14 172	18 218
Unsecured subordinated debt	3	1 062	1 006
Excess of assets over liabilities		**10 570**	**10 131**

Statutory basis R million		30 June 2012	30 June 2011
Total assets		**198 815**	**190 315**
Total liabilities	2	**189 520**	**181 318**
Actuarial value of policy liabilities		175 958	163 598
Current and other liabilities		13 562	17 720
Excess of assets over liabilities		**9 295**	**8 997**
Capital adequacy requirement (CAR)		4 090	3 885
Ratio of excess of assets over liabilities to CAR		2,3	2,3
Dividends approved by Board after 30 June		1 200	1 050
Excess of assets over liabilities after approved dividends		8 095	7 948
Ratio of excess of assets over liabilities to CAR after approved dividends		2,0	2,0

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MOMENTUM GROUP LIMITED AS AT 30 JUNE 2012

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 22 to43. Equity investments in subsidiaries are included in the company 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 18 to the financial statements.

3. UNSECURED SUBORDINATED DEBT

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

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

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

R million	Notes	30 June 2012	30 June 2011
Excess of assets over liabilities on the published reporting basis		**10 570**	**10 131**
Policy liabilities (net of deferred tax impact)		882	742
Deferred acquisition costs and deferred revenue liabilities (net of deferred tax impact)		(1 024)	(1 007)
Excess of fair value over net asset value of subsidiaries		(698)	(396)
Impairment of subsidiaries on the statutory basis (intangibles and capital requirements)		(866)	(715)
Sage intangibles (net of deferred tax impact) and other inadmissible assets		(631)	(764)
Unsecured subordinated debt		1 062	1 006
Excess of assets over liabilities on the statutory basis	1	**9 295**	**8 997**

1. The reinsurance assets and liabilities netting off in reconciliation above amounted to R934m (June 2011: R725m).

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

R million	30 June 2012	30 June 2011
Excess of assets over liabilities at end of the year	10 570	10 131
Excess of assets over liabilities at beginning of the year	10 131	10 504
Change in excess of assets over liabilities over the year	**439**	**(373)**

R million	Notes	30 June 2012	30 June 2011
Operating profit (excluding basis changes)	5.1	1 397	1 147
Basis changes included in operating profit	5.2	(144)	(44)
Investment return on excess	5.3	494	617
Attributable earnings		**1 747**	**1 720**
Revaluation of investments in subsidiaries and owner occupied buildings to fair value		473	(1 108)
Capital appreciation on financial instruments and foreign currency translation reserves		-	12
Movement in reserve for equity settled share-based payments		-	-
Restructuring of share incentive scheme			(7)
Dividends paid		(1 781)	(992)
Change in excess of assets over liabilities		**439**	**(373)**

Notes:

5.1 In addition to discretionary margins implicit in policy liabilities, Momentum holds explicit discretionary margins 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. While investment returns on certain explicit discretionary margins were accumulated as a commensurate increase in the margins in the past (despite changes in the composition of Momentum's balance sheet), expected investment returns on these margins have been released to earnings in the 12 months ended 30 June 2012 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy. A portion of the capital amount has also been released.

5.2 The changes in the valuation basis consisted of the following items:

R million	30 June 2012	30 June 2011
Economic assumptions[1]	-	-
Maintenance expense assumptions[2]	(87)	(121)
Mortality and morbidity assumptions[3]	10	168
Termination assumptions[4]	(20)	69
Methodology changes[5] and other items	(50)	(160)
Total	(147)	(44)

1. Economic assumption changes are included as part of investment experience variances and are transferred to the investment stabilisation account in accordance with the accounting policies on pages 22 to 43.
2. Maintenance expense assumptions have been revised based on the budgeted expenses for the year ending 30 June 2013.
3. Assumed future mortality rates were decreased following recent experience investigations.
4. Assumed policy termination bases on risk contracts were strengthened following recent experience investigations.
5. Methodology changes include items related to the review of methodology used to model future fee income on retail products as well as methodology changes on recurring premium risk products.

5.3 Investment income includes dividends of R154m (30 June 2011: R314m) received from strategic subsidiaries and an amount of R97m (30 June 2011: R84m) reflected as operating profit in group earnings.

6. RECONCILIATION OF THE CHANGE IN EXCESS OF ASSETS OVER LIABILITIES ON THE PUBLISHED REPORTING BASIS AND GROUP ATTRIBUTABLE EARNINGS

R million	30 June 2012	30 June 2011
Attributable earnings (company)	**1 747**	**1 721**
Reversal of dividends from subsidiaries	(154)	(314)
Subsidiaries' attributable earnings	266	213
Consolidation adjustments	-	20
Write-off of intangible assets	(15)	(15)
Attributable earnings (group)	**1 844**	**1 625**

7. BONUS STABILISATION ACCOUNTS

The levels of the policyholder bonus stabilisation accounts in the main portfolios have increased marginally since 30 June 2011. In considering whether the existing negative bonus stabilisation accounts can be recovered through the under-declaration of bonuses, the asset managers' outlook for the portfolios, expected future cashflows and policyholders' reasonable expectations have been taken into account, as well as the statutory actuary's view on the board of directors' expected willingness to declare bonuses below actual investment returns over the next three years.

8. 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 Professional Guidance Note PGN110 of the Actuarial Society of South Africa.

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 2012	Implied volatility (%) June 2012	Price (% of nominal) June 2011	Implied volatility (%) June 2011
1	Spot	8,1	24	7,6	24
1	80% x spot	2,8	30	1,5	24
1	Forward*	9,0	23	9,4	24
5	Spot	13,3	28	9,3	26
5	1.04^5 x spot	21,3	27	16,7	26
5	Forward*	20,5	27	20,5	26
20	Spot	6.5	32	4,3	28
20	1.04^20 x spot	22,1	31	17,9	29
20	Forward*	29,7	30	30,5	29

* 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 2012	Implied volatility (%) June 2012	Put Price (% of nominal) June 2011	Implied volatility (%) June 2011
5	1.04^5 x spot	11,3	16,0	7,8	15,6

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 2012	Price (% of nominal) June 2011
20	5-year forward rate in 20 years	0,35	0,31

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 2012.

Years	Yield June 2012 (%)	Yield June 2011 (%)
1	5,5	6,0
2	5,6	6,7
3	5,9	7,3
4	6,2	7,7
5	6,5	8,0
10	7,6	8,6
15	7,9	8,5
20	7,9	8,2
25	7,7	7,9
30	7,6	7,7
35	7,6	7,5
40	7,5	7,4

9. 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 professional guidance note PGN104 of the Actuarial Society of South Africa, was calculated as R4 090m (30 June 2011: R3 885m).

The excess of assets over liabilities on the statutory basis is sufficient to cover the capital adequacy requirement 2,3 times (30 June 2011: 2,3 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 professional guidance note PGN110 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 2011: 25% decrease) in fixed-interest yields would occur immediately.

The following management actions were assumed:

- Bonuses on the universal smoothed bonus business will be reduced by 2% - 3% 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.
- Where management has the right to determine the investment mandate of with-profit annuity products, management will exercise this right and closely match liabilities where funding levels decrease materially.
- No removal of non-vested bonuses will be necessary to support policyholder bonus stabilisation accounts following a CAR event.

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.

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

R million	30 June 2012	30 June 2011
CAR before management actions	5 188	4 988
Value of management actions	(1 136)	(1 136)
Reduction in future bonuses	(621)	(720)
Management actions on ring-fenced portfolios	(515)	(416)
Diversification impact on management actions	38	33
CAR after management actions	**4 090**	**3 885**

**Alternative presentation*

Investment risk in respect of discretionary participation business declined as a result of the improvement in the funding levels of the smooth bonus business. This was offset by allowing for less assumed management action leaving the net investment risk fairly stable.

The Momentum Group Limited Board has approved the assumptions regarding management action in the CAR calculation, and I am 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 2012.

NATURE OF ACTIVITIES

Momentum Group Limited is a registered life insurance and financial services company that transact in life, group schemes, employee benefits, health insurance products and administration services, as well as medical aid scheme administration, asset management business and collective investment schemes. Some of these activities are conducted in subsidiary companies.

PRESENTATION OF FINANCIAL STATEMENTS

International Financial Reporting Standards (IFRS)

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) and IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements. 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 44. Where reclassifications have been made refer to accounting policies for more details.

Reclassifications

The June 2011 results have been restated for certain reclassifications. Refer to pages 22 and 23.

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 period under review were R1 716 million (2011: R1 688 million). Core headline earnings were R1 841 million (2011: R1 650 million) and core headline earnings per share 969 cents (2011: 868 cents).

SUBSIDIARIES AND ASSOCIATES

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

NEW COMPANIES ACT

The company is in the process of drafting a memorandum of incorporation in light of the promulgation of the Companies Act No. 71 of 2008 (new Companies Act) and the Companies Regulations in May 2011.

SHARE CAPITAL

Share Issue

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

SHAREHOLDER DIVIDEND

Momentum Group Ltd - ordinary share dividend

The following dividends were declared during the current year:

	2012 cents per share	2011 cents per share
Interim – March	369	316
Final – September	633	554
	1002	870

On 11 September 2012 a final dividend of 633 cents per ordinary share was declared that resulted in an annual dividend of 1002 cents per share. This final dividend is payable to MMI Holdings Limited on 21 September 2012.

Momentum Group Ltd preference shares

Dividends on the Momentum Group Ltd preference shares declared to FirstRand Ltd amounted to R30.5 million (2011: R33.4 million).

SHAREHOLDERS

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

DIRECTORATE AND SECRETARY

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

	Appointments	Resignations
Mr L Crouse	18 May 2012	
Mr LL Dippenaar		22 November 2011
Mr PK Harris		22 November 2011
Prof JD Krige	22 November 2011	
Mr K Matseke		31 October 2011
Mr M Mthombeni		31 August 2012
Mr V Nkonyeni	22 November 2011	
Mr MH Visser	22 November 2011	26 April 2012 (Deceased)

On 22 November 2011, Mr MJN Njeke was appointed chairman while Mr JP Burger was elected deputy chairman.

DIRECTORS' REPORT
(continued)

DIRECTORS' SHAREHOLDING
The aggregate direct and indirect holdings of the directors of the company in MMI Holdings Ltd at 30 June 2012 are set out below.

No material changes occurred between the reporting date and the approval of the financial statements, except for the effect of Mr M Mthombeni's resignation.

	Direct		Indirect			Restated
	Beneficial	**Non-beneficial**	**Beneficial**	**To be delivered**	**Total 2012**	Total 2011
	'000	**'000**	**'000**	**'000**	**'000**	'000
Listed						
Executive directors	493	-	-	315	**808**	749
Non-executive directors	272	-	1,723	1,956	**3,951**	4,592
	765	-	1,723	2,271	**4,759**	5,341

2011 was restated for the effect of not disclosing direct, non-beneficial holdings.

SPECIAL RESOLUTIONS
There were no special resolutions during the current financial year.

BORROWING POWERS
In terms of the company's articles of association directors have unlimited borrowing powers, however, FSB approval is required for any borrowings within the company.

EVENTS AFTER THE REPORTING PERIOD
The company entered into a binding sale of shares agreement with OUTsurance Holdings Ltd ("OUTsurance") a subsidiary of Rand Merchant Insurance Holdings Ltd ("RMI") in terms of which Momentum Group Ltd would, upon fulfilment of the suspensive conditions, acquire OUTsurance's 50% shareholding in Momentum Short-term Insurance Company Ltd. ("MSTI"). Momentum already owns the other 50% of the issued share capital of MSTI.

Momentum Group Limited and Metropolitan Life Limited signed a sale of business agreement on 6 August 2012 in terms of which the entire business of Metropolitan Life Limited will be sold to Momentum Group Limited. The closing date of the proposed sale transaction will be the last day of the calender month when all the suspensive conditions are either fulfilled or waived. The suspensive conditions include (inter alia) approval by the boards of directors of Momentum Group Limited and Metropolitan Life Limited as well as approval by the North Gauteng High Court and the Financial Services Board ("FSB"). The purchase price shall be equal to the net asset value of Metroplitan Life Limited as at 30 June 2012. On the closing date of the proposed transaction Momentum Group Limited will create a loan account in favour of Metropolitan Life Limited equal to the purchase price. The loan shall be interest free and shall be repayable on demand.

STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	2012 Rm	Restated 2011 Rm	Restated 1 July 2010 Rm	Notes
ASSETS				
Intangible assets	**2 602**	2 598	2 753	1
Owner-occupied properties	**646**	623	947	2
Property and equipment	**61**	58	50	3
Investment properties	**439**	379	29	4
Interest in subsidiary companies	**29 855**	26 946	30 491	5
Investment in associates	**73**	239	276	6
Employee benefit assets	**202**	166	113	21.1
Financial instruments				
Securities designated at fair value through income	**136 796**	137 450	118 133	7.1
Investments in associates designated at fair value through income	**13 387**	3 659	6 528	7.2
Derivative financial instruments	**2 397**	1 542	1 173	7.3
Available-for-sale	**2 849**	4 696	2 866	7.4
Loans and receivables	**4 717**	4 726	4 842	8
Insurance and other receivables	**699**	477	489	9
Reinsurance contracts	**934**	734	599	11
Current income tax assets	**30**	125	-	25.1
Cash and cash equivalents	**8 068**	10 290	10 645	12
Non-current assets held for sale	**166**	-	-	24
Total assets	**203 921**	194 708	179 934	
EQUITY				
Equity attributable to owners of the parent	**10 070**	9 631	10 003	
Share capital	**1 041**	1 041	1 041	13
Other components of equity	**857**	402	1 504	14
Retained earnings	**8 172**	8 188	7 458	
Preference shares	**500**	500	500	15
Total equity	**10 570**	10 131	10 503	
LIABILITIES				
Insurance contract liabilities				
Long-term insurance contracts	**43 969**	42 428	40 994	16
Financial instruments				
Investment contracts	**134 148**	122 925	111 223	17
- with discretionary participation features (DPF)	**10 829**	12 156	11 543	
- designated at fair value through income	**123 319**	110 769	99 680	
Designated at fair value through income	**8 503**	7 821	7 299	19
Derivative financial instruments	**1 080**	638	896	7.3
Amortised cost	**-**	77	223	20
Deferred income tax	**871**	872	571	10
Employee benefit obligations	**391**	351	244	21.2
Other payables	**4 323**	9 397	7 880	22
Provisions	**66**	68	61	23
Current income tax liabilities	**-**	-	40	25.1
Total liabilities	**193 351**	184 577	169 431	
Total equity and liabilities	**203 921**	194 708	179 934	

INCOME STATEMENT

For the year ended 30 June 2012

	2012 Rm	2011 Rm	Notes
Insurance premiums	9 916	9 861	
Insurance premiums ceded to reinsurers	(2 194)	(1 480)	
Net insurance premiums	7 722	8 381	26
Fee income	1 937	1 931	27
Investment contracts	1 320	1 268	
Trust and fiduciary services	331	261	
Other fee income	286	402	
Investment income	8 744	8 487	28
Net realised and fair value gains	9 641	12 019	29
Net income	28 044	30 818	
Insurance benefits and claims	10 426	11 121	
Insurance claims recovered from reinsurers	(1 149)	(1 167)	
Net insurance benefits and claims	9 277	9 954	30
Change in liabilities	14	1 250	
Change in insurance contract liabilities	1 541	1 434	16
Change in investment contracts with DPF liabilities	(1 327)	(49)	17
Change in reinsurance provisions	(200)	(135)	11
Fair value adjustments on investment contract liabilities	11 173	11 568	17
Depreciation, amortisation and impairment expenses	93	87	31
Employee benefit expenses	1 490	1 493	32
Sales remuneration	1 745	2 084	33
Other expenses	1 101	995	34
Expenses	24 893	27 431	
Results of operations	3 151	3 387	
Share of profit of associates	3	36	6
Finance costs	(749)	(1 062)	35
Profit before tax	2 405	2 361	
Income tax expense	(658)	(640)	25.2
Earnings for year	1 747	1 721	
Attributable to:			
Owners of the parent	1 716	1 688	36
Momentum preference shares	31	33	
	1 747	1 721	
Basic earnings per ordinary share (cents)	903	888	

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	2012 Rm	2011 Rm	Notes
Earnings for year	**1 747**	1 721	
Other comprehensive income, net of tax	**473**	(1 096)	
Land and buildings revaluation	**39**	39	14
Revaluation of subsidiaries	**450**	(1 106)	14
Revaluation of available-for-sale investments	**(2)**	12	14
Income tax relating to components of other comprehensive income	**(14)**	(41)	14
Total comprehensive income for year	**2 220**	625	
Total comprehensive income attributable to:			
Owners of the parent	**2 189**	592	
Momentum preference shares	**31**	33	
	2 220	625	

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Share capital	Share premium	Restated other reserves	Restated 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 2010	9	1 032	2 247	6 715	10 003	500	10 503	
Reclassification	-	-	(743)	743	-	-	-	14
Balance at 1 July 2010	9	1 032	1 504	7 458	10 003	500	10 503	
Total comprehensive income	-	-	(1 096)	1 688	592	33	625	
Income statement	-	-	-	1 688	1 688	33	1 721	
Other comprehensive income	-	-	(1 096)	-	(1 096)	-	(1 096)	
Dividend paid	-	-	-	(958)	(958)	(33)	(991)	
Other	-	-	(6)	-	(6)	-	(6)	
Balance at 1 July 2011	**9**	**1 032**	**402**	**8 188**	**9 631**	**500**	**10 131**	
Total comprehensive income	-	-	**473**	**1 716**	**2 189**	**31**	**2 220**	
Income statement	-	-	-	**1 716**	**1 716**	**31**	**1 747**	
Other comprehensive income	-	-	**473**	-	**473**	-	**473**	
Dividend paid	-	-	-	**(1 750)**	**(1 750)**	**(31)**	**(1 781)**	
Transfer to retained earnings	-	-	**(18)**	**18**	-	-	-	14
Balance at 30 June 2012	**9**	**1 032**	**857**	**8 172**	**10 070**	**500**	**10 570**	

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	2012 Rm	2011 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(8 252)	(6 547)	37.1
Interest received	6 468	6 421	
Dividends received	2 216	2 015	
Income tax paid	(579)	(545)	37.2
Interest paid	(749)	(1 062)	37.3
Net cash (out)/inflow from operating activities	(896)	282	
Cash flow from investing activities			
Dividend from associates	25	73	
Purchase of owner-occupied properties	(1)	-	
Purchase of investment properties	(76)	(5)	
Purchase of property and equipment	(51)	(37)	
Disposal of property and equipment	9	-	
Net cash (out)/inflow from investing activities	(94)	31	
Cash flow from financing activities			
Decrease in financial liabilities at amortised cost	(77)	(146)	
Increase in financial liabilities at fair value through income	626	469	
Dividend paid to equity holders	(1 750)	(958)	
Preference share dividends paid	(31)	(33)	
Net cash outflow from financing activities	(1 232)	(668)	
Net cash flow	(2 222)	(355)	
Cash resources and funds on deposit at beginning	10 290	10 645	
Cash resources and funds on deposit at end	8 068	10 290	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	8 068	10 290	12
Cash and cash equivalents held for sale	-	-	24
	8 068	10 290	

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 and the Companies Act, 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 PGN104 – Valuation 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 44.

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 2011 results has been restated for the following reclassifications:

- On analysing the equity portfolios classified as available-for-sale financial instruments, it was noted that certain of the net cumulative realised gains over a period before June 2010, totalling R743 million, were not recycled from the available-for-sale reserve to the income statement on disposal or derecognition of these assets. The retained earnings and available-for-sale reserve balances at 1 July 2010 have therefore been restated from R6 715 million to R7 458 million and R747 million to R4 million, respectively and the retained earnings and available-for-sale reserve balances at 30 June 2011 have been restated from R7 445 million to R8 188 million and R756 million to R13 million, respectively. These restatements had no taxation impact.
- Investments in collective investment schemes where the company holds between 20% and 50% of the issued units were previously disclosed as investments in associates. These investments have always been designated at fair value through income using the scope exemption in IAS 28 and disclosed as part of the investment in associates. These investments, totalling R3 659 million as at 30 June 2011, are now disclosed as financial instruments as this better reflects the nature thereof. The investment in associates balance has therefore been restated from R3 898 million to R239 million and financial instruments investment in associates designated at fair value through income from Rnil million to R3 659 million respectively.

A statement of financial position as at 1 July 2010 has been prepared as a result of the above reclassifications. These restatements had no impact on the 2012 or 2011 year reported or earnings or headline earnings per share.

In the current financial year a detailed analysis of financial instruments at individual instrument level has also been performed to align interpretations and judgements within the MMI group which resulted in reclassifications to the financial risk disclosures presented in 2011. Details of these reclassifications are provided in the relevant notes. These reclassifications had no impact on the 2012 or 2011 statement of financial position, earnings or headline earnings per share.

R60 million of earnings for the year ended June 2011, that was previously included in investment variances and therefore excluded from core headline earnings, is now included in core headline earnings to ensure consistency with the year ended June 2012. It relates to the expected release of reserves held in respect of minimum maturity guarantees as well as demographic experience on these reserves. It is reflected as part of core headline earnings as these are releases that are expected at the start of the financial year and are already allowed for in the reserving. Treating this component as core headline earnings is consistent with the treatment of margin releases on other reserves. Similarly, all other demographic experience is already included in core headline earnings.

Fee income, other expenses and income tax in the June 2011 segmental report has been restated to ensure consistency with internal reporting for the year ended June 2012.

None of the above reclassifications had an impact on the 2012 or 2011 statement of cash flows.

Published standards, amendments and interpretations effective for June 2012 financial period

The following published standards are mandatory for the company's accounting period beginning on or after 1 July 2011 and have been implemented in accordance with the transitional provisions of these standards:

- IFRS 7 (amendment) – Financial instruments: disclosures. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The additional disclosures include a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the company's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.
- IAS 24 (amendment) - Related party disclosures. This amendment clarifies and simplifies the definition of related party. The entities mostly affected are those that are part of a group that includes subsidiaries and associates and entities with shareholders that are involved with other entities.

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

Improvements project amendments

- IFRS 7 - Financial instruments: disclosures. The amendment includes multiple clarifications related to the disclosure of financial instruments, for example:
    - disclosure of the carrying value of financial assets which would otherwise have been past due but have been renegotiated has been removed
    - additional disclosure required of the financial effect of collateral held as security and other credit enhancements
    - no additional disclosure of the maximum exposure to credit risk for financial instruments with carrying amounts that best represent the maximum exposure to credit risk.
- IAS 1 - Presentation of financial statements. The amendment states that an entity shall present the changes in components of equity either in the statement of changes in equity or in the notes to the financial statements.
- IAS 34 - Interim reporting. Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.
- IFRIC 13 - Customer loyalty programmes. The meaning of the term 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

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

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

- IFRS 1 (amendment and improvements) – First-time adoption of International Financial Reporting Standards.
- IFRIC 14 (amendment) - Prepayments of a minimum funding requirement.
- AC 504 (revision) - IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction in the South African pension fund environment.

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

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

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

- IAS 1 (amendment) - Presentation of financial statements: presentation of items of other comprehensive income (effective from annual periods beginning on or after 1 July 2012).
- IFRS 7 (amendment) - Financial instruments: disclosures - offsetting financial assets and financial liabilities (effective from annual periods beginning on or after 1 January 2013).
- IFRS 10 - Consolidated financial statements (effective from annual periods beginning on or after 1 January 2013).
- IFRS 11 - Joint arrangements (effective from annual periods beginning on or after 1 January 2013).
- IFRS 12 - Disclosure of interests in other entities (effective from annual periods beginning on or after 1 January 2013).
- IFRS 13 - Fair value measurement (effective from annual periods beginning on or after 1 January 2013).
- IAS 19 (amendment) - Employee benefits (effective from annual periods beginning on or after 1 January 2013).
- IAS 27 (revised) - Separate financial statements (effective from annual periods beginning on or after 1 January 2013).
- IAS 28 (revised) - Investments in associates and joint ventures (effective from annual periods beginning on or after 1 January 2013).
- IAS 32 (amendment) - Financial instruments: presentation - offsetting financial assets and financial liabilities (effective from annual periods beginning on or after 1 January 2014).
- IFRS 9 – Financial Instruments (effective from annual periods beginning on or after 1 January 2015).

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

Improvements project amendments

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

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

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

- IFRIC 20 – Stripping costs in the production phase of a surface mine (effective from annual periods beginning on or after 1 January 2013).

Improvements project amendments

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

CONSOLIDATION

Subsidiaries

Subsidiaries are companies in which Momentum, directly or indirectly, has the power to exercise control over the operations for its own benefit. Momentum considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Momentum's holdings in collective investment schemes where Momentum has more than 50% of the economic interest and where Momentum has the power to exercise control over the operations for its own benefit, are accounted for as investments in subsidiaries. There is a certain amount of judgement required to determine whether Momentum exercises control or not.

Investments in subsidiaries designated at fair value through profit and loss

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.

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

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

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

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

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

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the synergies of the combination in which the goodwill arose. *Cash-generating units*, to which goodwill has been allocated, are assessed annually for impairment. An impairment loss is recognised whenever the carrying amount of goodwill exceeds its recoverable amount. 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.

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 programs are recognised as an expense as incurred.

Impairment

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

OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the 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

Properties under development

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

Measurement

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

Impairment

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

Equipment

Measurement

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 - 4 years
Motor vehicles	5 - 6 years

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

Gains and losses

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

Impairment

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

INVESTMENT PROPERTIES

Properties under development

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

Measurement

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

Completed properties

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the 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, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis (refer to rental income accounting policy).

Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the 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 INSTRUMENTS

Recognition and measurement

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

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

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

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

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

  A financial asset is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term and forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking. 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 not classified in any of the other categories.

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 quoted investments is based on current bid prices. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit linked investments and financial assets where the market is not active, the company establishes fair value by using valuation techniques disclosed in note 49. These include discounted cash flow analysis and adjusted price earnings ratios. Unquoted securities are valued at the end of every reporting period.

The fair value of financial liabilities quoted in active markets is based on current ask/offer prices. Alternatively, fair value is derived from cash flow models or other appropriate valuation models where an active market does not exist. 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 inputs and relying as little as possible on entity specific inputs.

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.

Derecognition of financial instruments

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the 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 instruments at fair value through income

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

Available-for-sale assets

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

Changes in the fair value of equity securities denominated in a foreign currency and classified as available-for-sale are recognised in other comprehensive income. Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. 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, and not the collateral security, 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 quoted bid prices while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

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

The 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.

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

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

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

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

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 from the proceeds.

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

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, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. 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, except:

- An insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.
- If the terms of an investment contract change to such a large extent (quantitatively), 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 significant if an insured event could cause an insurer to pay benefits 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 professional guidance note (PGN) 104 – Valuation 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 PGN110 – 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 PGN104 – Valuation 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 to provide an additional layer of protection for policyholders against the risk of removal of non vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to reverse the capitalisation of future profits to ensure that the profits are recognised in line with the terms of the related agreements.
- An additional margin is held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of decrement assumptions and asset related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company.
- 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 PGN110, 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 PGN104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

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

Impairment of reinsurance assets

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

Insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

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

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 Bonds Exchange of South Africa 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.

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

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

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

Financial liabilities at amortised cost

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently carried at amortised cost; any difference in 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*.

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 and secondary tax on companies (prior to 1 April 2012), 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 same taxable entity.

CURRENT TAXATION

Measurement

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

Offsetting

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

Secondary tax on companies (STC) and dividend withholding tax (DWT)
On 1 April 2012 DWT became effective and replaced STC. DWT is levied on the shareholders (or beneficial owners) receiving the dividend; where STC was levied on the company declaring the dividend.

Prior to 1 April 2012

South African resident companies were subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax, on distributed income. A company incurred STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC was not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends was recognised as a taxation charge in the income statement in the same period that the related dividend was accrued as a liability. The dividend declared was reduced by dividends received during the dividend cycle. Where dividends declared exceeded the dividends received during a cycle, STC was payable at the then current STC rate (10%) on the net amount. Where dividends received exceeded dividends declared within a cycle, there was no liability to pay STC. The potential tax benefit related to excess dividends received was carried forward to the next dividend cycle as an STC credit. Deferred tax assets were recognised on unutilised STC credits to the extent that it was probable that the company would declare future dividends to utilise such STC credits.

Post 1 April 2012

Shareholders are now subject to DWT on dividends received, unless they are exempt in terms of the amended tax law. DWT is levied at 15% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not the beneficial owner of the dividend. Where a group company is a beneficial owner of the dividend the DWT is recorded as an expense in the income statement when the dividend income is earned.

The deferred tax asset is not raised on unutilised STC credits as the STC credits are now available for the benefit of the company's shareholders and not the company.

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.

Measurement

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

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

Past-service costs are recognised immediately in the income statement, unless the changes to the pension fund are conditional on the employees remaining in service for a specified period of time, known as the vesting period. In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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 the income statement.

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 the equity of the parent or another group company or settled in cash where the amount is based on the equity of the parent or another group company, the company measures the goods or services received as either equity or cash settled share based payment transactions by assessing the nature of the awards and its own rights and obligations. In all other circumstances, the company measures the goods or services received as a cash settled share based payment transaction.

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.

REVENUE RECOGNITION

Revenue comprises the fair value of services, net of value-added tax. Revenue 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 Momentum 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:

- Impairment testing of intangibles – note 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Impairment of available-for-sale equity and debt instruments – note 7.4
- Provision for current and deferred tax – note 10 and 25
- Assumptions and estimates of contract holder liabilities – note 18
- Valuation assumptions for financial instruments – note 49

SEGMENTAL REPORT

For the year ended 30 June 2012

Management has determined the operating segments based on the way the business has been managed since the merger between Metropolitan and Momentum. The reports used by the chief operating decision-makers, the members of the executive committee, to make strategic decisions reflect this.

The committee considers the business from both a geographic and product perspective. The South African operations are segregated into Momentum Retail, Metropolitan Retail, Momentum Employee Benefits, Momentum Investments 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;
- Metropolitan Retail (New Markets and FNB Life are divisions within Momentum but forms part of the Metropolitan Retail segment within the MMI Group): 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 of employees, liability management for employers and retirement funds, and administration for selected retirement funds in South Africa. Product offering: Administration, insurance and investment solutions for employers and retirement funds in large corporate and SMME market segments;
- Metropolitan International: Momentum Life Assurance Namibia is an associate of Momentum (disclosed under Non-current assets held for sale in 2012) but forms part of the Metropolitan International segment within the MMI Group.
- Momentum Investments: A full-service investment manager in South Africa, Africa and selected international markets. Product offering: Active and passive investment management (local and international), Alternative investment management, Multi-management, Collective investment management and Property investment management. The shared services component of the investment management business is a division of Momentum.
- Metropolitan Health: In the 2011 financial year some costs relating to the Health segment were carried in Momentum Group Limited.
- 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.

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 36.

The basis for preparation of the segmental report has changed from the prior year. Previously the segmental report was prepared for the entire Momentum Group of companies. The subsidiary figures were then taken out in the adjustment column to agree to the income statement totals for the company. The current year segmental report is prepared for the Momentum company only. The prior year segmental report has thus been restated to be comparable with the current year treatment.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The adjustments are shown in:

- The 'Other reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split.

SEGMENTAL REPORT

(continued)

2012	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee benefits Rm	Metropolitan International Rm	Momentum Investments Rm	Metropolitan Health Rm	Shareholder capital Rm	Segmental total Rm	Other reconciling items (1) Rm	IFRS total Rm
Revenue										
Net insurance premiums	16 391	210	6 238	-	10 661	-	-	**33 500**	(25 778)	**7 722**
Recurring premiums	6 700	210	3 635	-	-	-	-	**10 545**	(4 547)	**5 998**
Single premiums	9 691	-	2 603	-	10 661	-	-	**22 955**	(21 231)	**1 724**
Fee income	1 168	3	736	-	-	-	29	**1 936**	1	**1 937**
External fee income	1 168	3	736	-	-	-	29	**1 936**	1	**1 937**
Expenses										
Net payments to contract holders [2]	14 693	107	4 229	-	12 772	-	799	**32 600**	(23 323)	**9 277**
Other expenses	2 803	146	580	-	50	-	179	**3 758**	671	**4 429**
Sales remuneration	1 486	43	126	-	-	-	0	**1 655**	92	**1 747**
Administration expenses	1 317	103	454	(10)	50	-	140	**2 054**	55	**2 109**
Amortisation, depreciation and impairment	-	-	-	10	-	-	39	**49**	-	**49**
Direct property expenses and asset management fees	-	-	-	-	-	-	-	**-**	524	**524**
Holding company expenses	-	-	-	-	-	-	-	**-**	-	**-**
Income tax	359	1	46	-	6	-	247	**659**	-	**659**
Core headline earnings	949	(7)	63	22	(35)	-	849	**1 841**	-	**1 841**
Operating profit	1 314	(10)	88	22	(49)	-	452	**1 817**	-	**1 817**
Tax on operating profit	(365)	3	(25)	-	14	-	(1)	**(374)**	-	**(374)**
Investment income	-	-	-	-	-	-	477	**477**	-	**477**
Tax on investment income	-	-	-	-	-	-	(79)	**(79)**	-	**(79)**
Actuarial liabilities	123 050	294	22 315	-	30 054	-	2 404	**178 117**	-	**178 117**

(1) The 'Other reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split.
(2) The R799 million in shareholder capital relates to the maturity of certain corporate policies administered by the balance sheet management division.
(3) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R42 874, with no such non-current assets located in other countries.

SEGMENTAL REPORT
(continued)

Restated 2011	Momentum Retail [2] Rm	Metro-politan Retail Rm	Momentum Employee benefits Rm	Metro-politan International Rm	Momentum Invest-ments Rm	Metro-politan Health Rm	Share-holder capital Rm	Segmental total Rm	Other reconciling items (1) Rm	IFRS total Rm
Revenue										
Net insurance premiums	15 514	283	5 799	-	8 846	-	36	**30 478**	(22 097)	**8 381**
Recurring premiums	6 441	283	3 895	-	-	-	-	**10 619**	(3 960)	**6 659**
Single premiums	9 073	-	1 904	-	8 846	-	36	**19 859**	(18 137)	**1 722**
Fee income	1 318	6	569	5	225	-	144	**2 267**	(336)	**1 931**
External fee income	1 318	6	569	5	225	-	144	**2 267**	(336)	**1 931**
Expenses										
Net payments to contract holders	13 525	205	5 614	-	8 267	-	214	**27 825**	(17 871)	**9 954**
Other expenses	3 043	174	582	20	175	76	238	**4 308**	351	**4 659**
Sales remuneration	1 724	53	126	-	-	-	-	**1 903**	182	**2 085**
Administration expenses	1 319	121	456	10	175	76	107	**2 264**	(268)	**1 996**
Amortisation, depreciation and impairment	-	-	-	10	-	-	80	**90**	-	**90**
Direct property expenses and asset management fees	-	-	-	-	-	-	-	**-**	437	**437**
Holding company expenses	-	-	-	-	-	-	51	**51**	-	**51**
Income tax	504	(7)	49	-	51	(20)	133	**710**	(70)	**640**
Core headline earnings	699	21	17	37	(14)	9	881	**1 650**	-	**1 650**
Operating profit	1 008	28	25	36	(20)	(15)	225	**1 287**	-	**1 287**
Tax on operating profit	(309)	(7)	(8)	1	6	24	78	**(215)**	-	**(215)**
Investment income	-	-	-	-	-	-	629	**629**	-	**629**
Tax on investment income	-	-	-	-	-	-	(51)	**(51)**	-	**(51)**
Actuarial liabilities	112 630	290	19 415	-	29 267	-	3 751	**165 353**	-	**165 353**

(1) The 'Other reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split.

(2) R60 million of earnings for the year ended June 2011, that was previously included in investment variances and therefore excluded from core headline earnings, is now included in core headline earnings to ensure consistency with the year ended June 2012.

(3) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R41 992, with no such non-current assets located in other countries.

SEGMENTAL REPORT

(continued)

	2012 Rm	2011 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	**14 693**	13 525
Death and disability claims	**2 735**	2 445
Maturity claims	**4 456**	3 827
Annuities	**3 322**	3 151
Surrenders	**4 951**	4 991
Re-insurance recoveries	**(771)**	(889)
Metropolitan Retail	**107**	205
Death and disability claims	**92**	278
Maturity claims	**29**	16
Surrenders	**23**	31
Re-insurance recoveries	**(37)**	(120)
Momentum Employee benefits	**4 229**	5 614
Death and disability claims	**1 280**	1 201
Maturity claims	**419**	320
Annuities	**368**	379
Withdrawal benefits	**2 241**	3 780
Re-insurance recoveries	**(79)**	(66)
Investments - withdrawal benefits	**12 772**	8 267
Capital centre claims	**799**	214
Segmental payments to contract holders	**32 600**	27 825
Adjusted for payments to investment contract holders	**(23 323)**	(17 871)
Net insurance benefits and claims (note 30)	**9 277**	9 954

SEGMENTAL REPORT
(continued)

FUNDS RECEIVED FROM CLIENTS	Gross single inflows Rm	Gross recurring inflows Rm	Total gross inflow Rm	Total gross outflow Rm	2012 Total net inflow/ (outflow) Rm	Total gross inflow Rm	Total gross outflow Rm	2011 Total net inflow/ (outflow) Rm
Momentum Retail	9 691	6 700	16 391	(14 693)	1 698	15 514	(13 525)	1 989
Metropolitan Retail	-	210	210	(107)	103	283	(205)	78
Momentum Employee Benefits	2 603	3 635	6 238	(4 229)	2 009	5 799	(5 614)	185
Momentum Investments	10 661	-	10 661	(12 772)	(2 111)	8 846	(8 267)	579
Capital centre	-	-	-	(799)	(799)	36	(214)	(178)
Long-term insurance business cash flows	22 955	10 545	33 500	(32 600)	900	30 478	(27 825)	2 653
Total funds received from clients	22 955	10 545	33 500	(32 600)	900	30 478	(27 825)	2 653

NUMBER OF EMPLOYEES	2012	2011
Indoor staff	3 394	3 575
Momentum Retail	2 035	2 092
Metropolitan Retail	259	401
Momentum Employee Benefits	573	623
Momentum Investments	91	-
Balance sheet management	57	49
Group services	379	410
Field staff	493	494
Momentum Retail	493	494
Total employees	3 887	4 069

		2012 Rm	2011 Rm
1	**INTANGIBLE ASSETS**		
	Agency force	-	-
	Value of in-force business acquired	820	859
	Deferred acquisition costs	1 782	1 739
	Computer software	-	-
		2 602	2 598
1.1	**Agency force**		
	Cost	-	20
	Accumulated impairment	-	(20)
		-	-
1.2	**Value of in-force business acquired**		
	Acquisition of insurance and investment contracts with DPF		
	Cost	1 040	1 040
	Accumulated amortisation and impairment	(220)	(181)
	Carrying amount	820	859
	Carrying amount at beginning	859	898
	Amortisation charges	(39)	(39)
	Carrying amount at end	820	859
	The carrying amount is made up as follows:		
	Sage - Momentum Retail	820	859
		820	859

As a result of certain insurance contracts acquisitions, the company carries an intangible asset representing the present value of in-force business acquired. R820 million (2011: R859 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.

		2012 Rm	2011 Rm
1.3	**Deferred acquisition costs**		
	Cost	3 243	3 009
	Accumulated amortisation and impairment	(1 461)	(1 270)
	Carrying amount	1 782	1 739
	Carrying amount at beginning	1 739	1 855
	Additions	234	226
	Amortisation charges	(191)	(342)
	Carrying amount at end	1 782	1 739
		-	-
1.4	**Computer software**		
	Cost	-	3
	Accumulated amortisation and impairment	-	(3)
	Carrying amount	-	-

NOTES TO THE FINANCIAL STATEMENTS
(continued)

		2012 Rm	2011 Rm
2	**OWNER-OCCUPIED PROPERTIES**		
	Owner-occupied properties - at fair value	646	623
	Historical carrying value – cost model	321	321
	Fair value at beginning	623	947
	Additions	1	-
	Revaluations	37	30
	Depreciation charges	(15)	(19)
	Transfer to investment properties	-	(335)
	Fair value at end	646	623

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 contractual or market-related rent receivable. External valuations, by independent valuators, were obtained for all owner-occupied properties as at 30 June 2012 and as at 30 June 2011.

Assumptions	**Base assumption**	**Change in assumption**	**Change in fair value** Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	8.75%-9.5%	1%	39	(35)
Discount rate	n/a	n/a	n/a	n/a

Capitalisation and discount rates (2011: 9% and 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, vacancy percentages, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

		2012 Rm	2011 Rm
3	**PROPERTY AND EQUIPMENT**		
	Equipment and leasehold improvements		
	Cost	545	503
	Accumulated depreciation	(484)	(445)
	Carrying amount	61	58

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

	2012 Rm	2011 Rm
Carrying amount at beginning	58	50
Additions	51	37
Disposals	(9)	-
Depreciation charges	(39)	(29)
Carrying amount at end	61	58

		2012 Rm	2011 Rm
4	**INVESTMENT PROPERTIES**		
	At 30 June investment properties comprised the following property types:		
	Industrial	20	14
	Office buildings	419	364
	Other	-	1
	Property at valuation	439	379
	Completed properties		
	Fair value at beginning	379	28
	Additions	76	5
	Net gain from fair value adjustments	4	2
	Revaluations	2	9
	Transfer to non-current assets held for sale	(22)	-
	Transfer from owner-occupied properties	-	335
	Fair value at end	439	379
	Total investment properties	439	379

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 all investment properties as at 30 June 2012 and as at 30 June 2011.

Assumptions	**Base assumption**	**Change in assumption**	**Change in fair value Increase/(decrease) in assumption Rm**	**Rm**
Capitalisation rate	8.75%-11.5%	10% of base	297	(243)
Discount rate	14%-17%	10% of base	297	(243)

Capitalisation and discount rates (2011: 9.5% and 14.5% respectively) used reflect the security of the income and covenant of strength from the existing tenants. For valuation purposes, vacancy percentages, 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	Issued ordinary share capital
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011			
	%	%	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm			Rm
Subsidiaries (directly held):											
Listed											
Collective investment schemes	**Various**	Various	**-**	-	**26 498**	24 163	**26 498**	24 163	Unit trusts	South Africa	-
Unlisted											
Momentum Property Investments (Pty) Ltd	**100**	100	**1 119**	1 739	**830**	905	**1 949**	2 644	Property investments	South Africa	-
Momentum Life Assurers Ltd	**100**	100	**(36)**	(36)	**36**	36	**-**	-	Dormant	South Africa	3
Momentum Wealth (Pty) Ltd	**100**	100	**75**	75	**290**	67	**365**	142	Investment administration	South Africa	-
Momentum Medical Scheme Administrators (Pty) Ltd	**100**	100	**490**	311	**21**	(96)	**511**	215	Health administration	South Africa	-
Momentum Ability Ltd	**100**	100	**-**	-	**131**	74	**131**	74	Long-term insurance	South Africa	10
Momentum Life Botswana (Pty) Ltd	**100**	100	**(8)**	3	**32**	26	**24**	29	Long-term insurance	Botswana	3
AdviceAtWork (Pty) Ltd	**100**	100	**26**	48	**(31)**	(17)	**(5)**	30	Employee benefits	South Africa	-
Momentum International Multimanagers (Pty) Ltd	**100**	100	**146**	78	**51**	92	**197**	170	Multi-management services	South Africa	-
Momentum Asset Management (Pty) Ltd	**100**	100	**(8)**	72	**815**	717	**807**	789	Asset management	South Africa	-
Momentum Africa (Pty) Ltd	**100**	100	**50**	260	**104**	(163)	**154**	97	Health administration	Africa	-
Momentum Finance Company (Pty) Ltd	**100**	100	**412**	331	**1 080**	1 052	**1 492**	1 383	Investment company	South Africa	-
Other unlisted investments in subsidiaries	**Various**	Various	**735**	252	**(2)**	90	**733**	343	Various	Various	Various
			3 001	3 133	**29 855**	26 946	**32 856**	30 079			

	2012 Rm	2011 Rm
6 INVESTMENT IN ASSOCIATES		
Equity accounted associates	**73**	239
Carrying amount at beginning	**239**	276
Share of profit before tax	**13**	45
Share of tax	**(10)**	(9)
Dividends paid	**(25)**	(73)
Transfer to non-current assets held for sale	**(144)**	-
Carrying amount at end – non-current	**73**	239

Company interest in equity accounted associates	%	**Carrying value** Rm	**Assets** Rm	**Liabilities** Rm	**Revenue** Rm	**Earnings** Rm
2012						
Momentum Short-term Insurance Company Ltd	**50%**	**73**	**106**	**(30)**	**144**	**11**
Momentum Life Assurance Namibia (Pty) Ltd	**49%**	**-**	**-**	**-**	**-**	**-**
		73	**106**	**(30)**	**144**	**11**
		-				
2011						
Momentum Short-term Insurance Company Ltd	50%	62	94	(34)	130	9
Momentum Life Assurance Namibia (Pty) Ltd	49%	177	677	(527)	184	35
		239	771	(561)	314	44

- Momentum Short-term Insurance was launched in 2005. It focuses on the distribution of short-term insurance through independent brokers with whom the company has relationships, as well as Momentum's agency force. It forms part of the Momentum Retail segment.

- Momentum Life Assurance Namibia is a long-term insurance company in Namibia and forms part of the Metropolitan International segment. In 2012, it is included under Non-current assets held for sale (refer to note 24), as it was sold to MMI Holdings Ltd during July 2012.

2011 restatement

The collective investment schemes designated at fair value through income are now included under financial instruments (refer note 7.2).

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2012 Rm	2011 Rm
7 FINANCIAL INSTRUMENTS		
7.1 Securities designated at fair value through income		
Equity securities	**32 496**	36 470
Debt securities	**50 150**	47 816
Funds on deposit and other money market instruments	**5 434**	6 324
Unit-linked investments	**48 716**	46 840
	136 796	137 450
Open ended	**80 369**	81 138
Current	**15 518**	15 301
Non-current	**40 909**	41 011
	136 796	137 450

General

The open ended category includes financial instruments with no fixed maturity date.

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

Refer to note 42.1 for details of unlisted financial assets.

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

	2012 Rm	2011 Rm
Scrip lending (included above)		
Carrying value of securities on loan		
Local listed equity securities	**1 893**	4 821

	2012 Rm	2011 Rm
7.2 Investments in associates designated at fair value through income		
Collective investment schemes (refer to Annexure B)	**13 387**	3 659

2011 restatement

The collective investment schemes designated at fair value through income were previously disclosed as investments in associates (refer note 6).

	2012 Assets Rm	2012 Liabilities Rm	2011 Assets Rm	2011 Liabilities Rm
7.3 Derivative financial instruments				
Held for trading	**2 347**	**1 080**	1 540	638
Held for hedging purposes	**50**	**-**	2	-
Fair value hedges	**50**	**-**	2	-
	2 397	**1 080**	1 542	638
Current	**528**	**74**	(782)	(514)
Non-current	**1 869**	**1 006**	2 324	1 152
	2 397	**1 080**	1 542	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 notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

2012	2012 Notional Rm	2012 Assets Rm	2012 Liabilities Rm	2011 Notional Rm	2011 Assets Rm	2011 Liabilities Rm
Derivatives held for trading						
Equity derivatives		484	183		55	68
Options, OTC	(283)	174	2	-	14	68
Options, exchange traded	(84)	-	-	(203)	-	-
Futures, OTC	(4)	1	-	-	-	-
Futures, exchange traded	133	-	-	273	41	-
Swaps, OTC	128	309	181	-	-	-
Interest rate derivatives		1 733	740		1 222	444
Swaps, OTC	14 263	1 732	740	12 096	1 222	444
Forward rate agreement, OTC	1 554	1	-	50	-	-
Bonds		128	68		189	126
Options, OTC	4 827	-	2	312	-	-
Options, exchange traded	(164)	-	-	-	-	-
Futures, OTC	45	-	22	-	-	-
Futures, exchange traded	82 263	36	-	84 076	3	-
Swaps, OTC	1 336	92	44	279	186	126
Credit derivatives		2	-		2	-
Swaps, OTC	290	2	-	292	2	-
Currency derivatives		-	89		72	-
Swaps, OTC	(89)	-	89	634	72	-
Options, exchange traded	19	-	-	(6)	-	-
Derivatives held for trading		2 347	1 080		1 540	638

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2012 Notional Rm	2012 Assets Rm	2012 Liabilities Rm	2011 Notional Rm	2011 Assets Rm	2011 Liabilities Rm
Derivatives held for trading	**104 234**	**2 347**	**1 080**	97 802	1 540	638
Derivatives held for hedging purposes						
Interest rate swaps	**1 000**	**50**	**-**	1 000	2	-
Total derivatives financial instruments		**2 397**	**1 080**		1 542	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 19) 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.

	2012 Rm	2011 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	**49**	20
Subordinated call notes	**(56)**	(53)
Net realised and fair value gains/(losses)	**(7)**	(33)

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.

	2012 Rm	2011 Rm
Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
On hedging instrument	**49**	19
On hedged items attributable to the hedged risk: callable notes	**(43)**	(11)
Ineffective portion recognised in Net realised and fair value gains/(losses)	**6**	8

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

The Net realised and fair value loss of R33 million in the prior year is mostly attributable to the fact that the company's credit rating was downgraded by Fitch on 12 November 2010, following the merger between Momentum Group Limited and Metropolitan Holdings Limited. The national insurer financial strength ("IFS") rating of the company was set to 'AA(zaf)' and it was assigned a stable outlook.

	2012 Rm	2011 Rm
7.4 Available-for-sale		
Equity securities		
Local listed	2	37
Unlisted	4	4
Debt securities	2 843	4 452
Unit-linked investments	-	203
	2 849	4 696
Open ended	6	257
Current	1 431	1 152
Non-current	1 412	3 287
	2 849	4 696

The debt securities relate to listed securities of R892 million (2011: R1 316 million) and unlisted securities of R1 951 million (R3 136 million).

Critical judgements and accounting estimates

The company determines that available-for-sale equity instruments are impaired and recognised as such in the income statement when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the company evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As at 30 June 2012 (and 30 June 2011), the company had no financial instruments with fair values below cost where the decline was considered significant or prolonged.

2011 reclassification

The company reallocated preference share investments of R2 133 million previously included in unlisted equity securities to debt securities as they are mandatorily redeemable at a fixed or determinable amount at a fixed or future date of which the dividends are non-discretionary.

	2012 Rm	2011 Rm
8 LOANS AND RECEIVABLES		
Accounts receivable	252	316
Receivables arising from investment contracts	111	158
Loans	4 354	4 252
Loans to related parties		
Loans due from subsidiaries	3 326	3 476
Other related party loans	201	-
Due from agents, brokers and intermediaries	232	212
Less provision for impairment	(97)	(88)
Policy loans	643	652
Other	49	-
	4 717	4 726
Current	4 560	4 204
Non-current	157	522
	4 717	4 726
Reconciliation of provision accounts		
Balance at beginning	88	58
Additional provision	9	30
Paid/reversed during year	-	-
Balance at end	97	88

	2012 Rm	2011 Rm

Terms and conditions and impairment provisions of material loans

- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at prime plus 1% 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.

9 INSURANCE AND OTHER RECEIVABLES

	2012 Rm	2011 Rm
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	699	477
Insurance contract holders	188	190
Investment contract holders with DPF	99	42
Due from reinsurers	412	245
	699	477
Current	689	477
Non-current	10	-
	699	477

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

Impairment is mainly due to expected default in payments.

10 DEFERRED INCOME TAX

	2012 Rm	2011 Rm
Deferred tax asset	875	825
Deferred tax liability	(1 746)	(1 697)
	(871)	(872)
Deferred tax is made up as follows:		
Accruals and provisions	21	37
Revaluations	(585)	(554)
Deferred tax on intangible assets as a result of business combinations	(229)	(241)
Deferred revenue liability	101	96
Difference between published and statutory policyholder liabilities	719	652
Tax losses	(4)	(5)
Negative rand reserves	(377)	(363)
Deferred acquisition costs	(499)	(487)
STC credits	-	10
Other	(18)	(17)
	(871)	(872)
Current	-	8
Non-current	(871)	(880)
	(871)	(872)

	2012 Rm	2011 Rm
Movement in deferred tax		
Balance at beginning	(872)	(571)
Charge to the income statement	16	(260)
Accruals and provisions	(16)	(35)
Revaluations	(16)	(211)
Deferred tax on intangible assets as a result of business combinations	12	11
Deferred revenue liability	5	(30)
Difference between published and statutory policyholder liabilities	67	21
Tax losses	1	-
Negative rand reserves	(14)	(18)
Deferred acquisition costs	(12)	32
STC credit	(10)	(7)
Other	(1)	(23)
Charge to other comprehensive income	(14)	(41)
Other	(1)	-
Balance at end	(871)	(872)
Deferred tax asset on available tax losses and credits not provided for	-	-

The deferred tax asset balance relating to STC credits at 1 April 2012 was derecognised as the STC credits are now available for the benefit of the company's shareholders and not the company.

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 R33 million (2011: R37 million) lower.

11 REINSURANCE CONTRACTS

	2012 Rm	2011 Rm
Reinsurers' share of insurance liabilities	934	734
Balance at beginning	734	599
Movement charged to income statement	200	135
Balance at end	934	734
Current	467	447
Non-current	467	287
	934	734

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 note 9.

	2012 Rm	2011 Rm
12 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	**6 363**	9 002
Funds on deposit and other money market instruments – maturity < 90 days	**1 705**	1 288
	8 068	10 290

Included in cash and cash equivalents is R108 million (2011: R2 705 million) relating to the collateral held in terms of the scrip lending agreements. Refer to note 7.1.

13 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital of Momentum 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.

	2012 Rm	2011 Rm
Issued share capital		
Balance at beginning	**1 041**	1 041
Shares issued	**-**	-
	1 041	1 041
Share capital	**9**	9
Share premium	**1 032**	1 032
	1 041	1 041

Momentum Group Ltd had 190 million ordinary shares in issue at 30 June 2012 (2011: 190 million).

Preference shares
Momentum Group Ltd has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 15.

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

		2012 Rm	2011 Rm
14	**OTHER COMPONENTS OF EQUITY**		
(a)	Land and building revaluation reserve	379	360
(b)	Revaluation of subsidiaries	468	18
(c)	Revaluation of available-for-sale investments	10	13
(d)	Non-distributable reserve	-	11
		857	402
	Movements in other reserves		
(a)	**Land and building revaluation reserve**		
	Balance at beginning	360	365
	Earnings directly attributable to other components of equity	26	1
	Revaluation	39	39
	Deferred tax on revaluation	(13)	(38)
	Transferred to retained earnings	(7)	-
	Other	-	(6)
	Balance at end	379	360

The transfer of R7 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.

		2012 Rm	2011 Rm
(b)	**Revaluation of subsidiaries**		
	Balance at beginning	18	1 124
	Fair value movement on subsidiaries	450	(1 106)
	Balance at end	468	18
(c)	**Revaluation of available-for-sale investments**		
	Available-for-sale assets		
	Balance at beginning	13	747
	Reclassification	-	(743)
	Balance at beginning - restated	13	4
	Fair value gain - gross	-	12
	Tax on fair value gain	-	(3)
	Gains transferred to net realised gains	(2)	-
	Deferred tax on realisation	(1)	-
	Balance at end	10	13

2011 restatement

Certain net cumulative realised gains on available-for-sale assets relating to prior years, totalling R743 million, were not recycled from the available-for-sale reserve to the income statement on disposal of these assets. These net gains have been reclassified from the available-for-sale reserve to retained earnings at 1 July 2010.

(d) Non-distributable reserve

Balance at beginning	**11**	11
Transfer from/(to) retained earnings	**(11)**	-
Balance at end	**-**	11

Management decided in 2012 to transfer a historical balance of R11 million from non-distributable reserves to distributable reserves.

(e) Equity-settled share-based payment arrangements

Momentum equity settled share schemes

The company had several share schemes in place before the merger. The merger resulted in some of the schemes being modified and the classification changed as noted below:

Previously equity settled schemes

The FirstRand Share Incentive Scheme (FRSIS)
The FirstRand Black Employee Trust (FRBET)
FirstRand Black Non-Executive Directors' trust (FRBNDT)

As from December 2010, when the merger became effective, the shares offered to employees under the FRSIS, FRBET and the FRBNDT were no longer the shares of the holding company or a subsidiary of the new MMI group and therefore, as these schemes were not amended, these schemes are accounted for as employee benefit obligations. Refer to note 21.2 for more details of these schemes.

Previously cash settled schemes

FirstRand Share Appreciation Right Scheme - replaced with the new Momentum Conditional Share Plan (cash-settled) - refer note 21.2(e).

Forfeitable Share Plan - similar to the FRSIS, FRBET and FRBNDT, the terms were not amended and the schemes were therefore transferred to employee benefit obligations - refer to note 21.2(b).

Conditional Share Plan - replaced with the new Momentum Conditional Share Plan (cash settled) - refer note 21.2(e).

Momentum Sales Scheme - terms modified - remained cash settled - refer note 21.2(e).

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2012 Rm	2011 Rm
15 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by Momentum Group Ltd		
Balance at beginning	**500**	500
Total comprehensive income	**31**	33
Dividend paid	**(31)**	(33)
Balance at end	**500**	500

This represents preference shares issued by Momentum to FirstRand Ltd. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate.

	2012 Rm	2011 Rm
16 INSURANCE CONTRACTS		
Long-term insurance contracts – gross	**43 969**	42 428
Less: recovery from reinsurers (note 11)	**(934)**	(734)
Long-term insurance contracts – net	**43 035**	41 694
Movement in long-term insurance contract liabilities		
Balance at beginning	**42 428**	40 994
Transfer to / from policyholder liabilities under insurance contracts	**1 541**	1 434
Increase in retrospective liabilities	**2 589**	2 717
Unwind of discount rate	**989**	941
Expected release of margins	**(1 060)**	(991)
Expected cash flows	**(3 573)**	(3 438)
Change in economic assumptions	**1 377**	786
Change in non-economic assumptions	**41**	55
New business	**976**	790
Experience variances	**202**	574
Balance at end	**43 969**	42 428

	2012 Rm	2011 Rm
17 INVESTMENT CONTRACTS		
Investment contracts with DPF	**10 829**	12 156
Investment contracts designated at fair value through income	**123 319**	110 769
Total investment contract liability	**134 148**	122 925
Movement in investment contracts with DPF		
Balance at beginning	**12 156**	11 543
Transfer from policyholder liabilities under investment contracts with DPF	**(1 327)**	(49)
Increase in retrospective liabilities	**(292)**	507
Unwind of discount rate	**(13)**	(9)
Expected release of margins	**(26)**	(4)
Expected cash flows	**(651)**	(491)
Change in economic assumptions	**68**	8
Change in non-economic assumptions	**40**	(17)
New business	**11**	10
Experience variances	**(464)**	(53)
Reclassification from investment contracts designated at fair value through income	**-**	662
Balance at end	**10 829**	12 156
Movement in investment contracts designated at fair value through income		
Balance at beginning	**110 769**	99 680
Contract holder movements	**12 550**	11 751
Deposits received	**25 974**	22 329
Contract benefit payments	**(23 327)**	(21 087)
Fees on investment contracts	**(1 270)**	(1 059)
Fair value adjustment to policyholder liabilities under investment contracts	**11 173**	11 568
Reclassification to investment contracts with DPF	**-**	(662)
Balance at end	**123 319**	110 769

18 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 22 to 43.

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 PGN104 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. While investment returns on certain explicit discretionary margin reserves were retained in the past, after tax expected investment returns of R182 million have been released to earnings in the 12 months ended 30 June 2012 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

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 2012 financial year. Comparisons of mortality claims and charges are performed regularly, the most recent such comparison having been done in May 2012.
- 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 year to June 2012.
- Home service funeral business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being in respect of June 2012.
- Annuity business: Mortality assumptions are based on the PA90 and RMV90 standard mortality tables for Momentum annuity business, less two years in age, with an allowance for mortality improvements of 0.5% per annum. The most recent investigation was in respect of June 2012.
- Allowance for changes in future mortality as a result of AIDS for individual life business, including Funeral Funder and direct marketing business, has been made using models compliant with the Actuarial Society of South Africa (ASSA) PGN105.

Morbidity

- Internal morbidity and accident investigations are done at least annually, the most recent being in respect of the six months ended June 2012.
- 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.
- Disability claim recovery probabilities are modelled using the Group Long-Term Disability Table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for South African circumstances by applying the following percentages of the base rates (the years represent duration of disability):

  Year 1: +45%

  Year 2: +85%

  Year 3: +135%

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends.
- Lapse investigations are performed at least annually in respect of grouped individual business and other individual business, the most recent being in respect of the year ended June 2012.
- Surrender investigations are performed at least annually, the most recent being in respect of the year ended June 2012.
- Experience is analysed by product type as well as policy duration.

Expenses

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

- The budgeted expense for the following year is taken as an appropriate expense base.
- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2013 financial year and allows for escalation at the assumed expense inflation rate of 6.8% (2011: 7.2%).
- 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 Momentum non-profit annuity business, yields of appropriate duration from an appropriate market related yield curve as at valuation date are used to discount expected cash flows at each duration. The yield curve used is based on either fixed or CPI-linked risk-free securities, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- CPI-linked annuities are valued at the risk-free real yield curve.
- For guaranteed endowment business, the discount rates used are the yields to maturity of the assets backing each policy.
- For other business, a single gilt rate from the BEASSA government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest quarter of a percent.
- Investment returns for other asset classes are set as follows:
    - Equity rate: gilt rate + 3.5% (2011: + 3.5%)
    - Property rate: gilt rate + 1% (2011: + 1.0%)
    - Corporate bonds: gilt rate + 0.5% (2011: + 0.5%)
    - Cash rate: gilt rate - 1.0% (2011: - 1.0%)
- An expense inflation rate of 6.8% pa was used to project future renewal expenses (2011: 7.2% p.a.). This inflation rate was derived by deducting the 10-year real return on CPI-linked government bonds of 2.1% (2011 : 2.6%) from the risk-free rate and adding an allowance for salary inflation and increases in unit costs of 1% (2011: 1.0%) pa (rounding to the nearest 0.25%).
- The main best-estimate assumptions, gross of tax, used in the valuation are:

	2012	2011
Risk discount rate	10.1%	11.1%
Gilt rate - risk-free investment return	7.8%	8.8%
Assumed investment return for individual smoothed bonus business	10.0%	11.0%
Renewal expense inflation	6.8%	7.2%

- The renewal expense inflation rate assumption takes into account future expense increases, on a per unit basis, across each line of business individually.

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 BSAs are negative, liabilities have been reduced by an amount that can reasonably be accepted to be recovered through under-distribution of bonuses during the ensuing three years. These amounts were determined by projecting BSAs three years into the future using assumed investment returns as per the valuation basis, net of applicable taxes and charges, as well as assumed bonus rates that are lower than those supported by the assumed investment return but nevertheless consistent with the bonus philosophies of the relevant funds. In all cases, the reduction in liabilities is equal to the negative BSA. The assumed bonus rates have been communicated to, and accepted by, both management and the board of directors.
- For conventional with-profit business, all future bonuses are provided for at bonus rates supported by the market value of the underlying assets and the assumed future investment return. Any resulting reduction in future bonus rate used in the valuation assumptions, relative to those declared for 2011, has been communicated to, and accepted by, both management and the board of directors.

Investment guarantees (PGN110)

- A market-consistent stochastic model was calibrated using market data as at 30 June 2012 and the value of the investment guarantee liabilities was calculated as at this date.
- PGN110 prescribes specific disclosure in respect of the market-consistent stochastic model that was used to calculate the liabilities. The disclosure is set out below.

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

Year	1	2	3	4	5	10	15	20	25	30	35	40
Yield % -	**5.5**	**5.6**	**5.9**	**6.2**	**6.5**	**7.6**	**7.9**	**7.9**	**7.7**	**7.6**	**7.6**	**7.5**
Yield % -	6.0	6.7	7.3	7.7	8.0	8.6	8.5	8.2	7.9	7.7	7.5	7.4

The following instruments have been valued by the model:

Instrument	2 012		2 011	
	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	8.1%	24%	7.6%	24%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	2.8%	30%	1.5%	24%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.029 (2011: 1.036)	9.0%	23%	9.4%	24%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	13.3%	28%	9.3%	26%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	21.3%	27%	16.7%	26%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.241 (2011: 1.217)	20.5%	27%	20.5%	26%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	6.5%	32%	4.3%	28%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	22.1%	31%	18.0%	29%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 2.838 (2011: 3.036)	29.7%	30%	30.5%	29%
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	11.3%	16%	7.8%	16%
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 interest rate at the time of maturity (in 20 years) is lower than this strike price	0.4%		0.3%	

Tax

- Future tax is allowed for according to current four-fund tax legislation by appropriately reducing the gross valuation interest rate expected to be earned in the future in the various books of business.
- No allowance is made for any assessed losses in the contract holder tax funds.
- Capital gains are assumed to be realised on a six to seven-year rolling basis. Capital gains tax charges are discounted to reflect this.

Basis and other changes

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

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2012 by R144 million (2011: R61 million) for the company. The major contributors to this change were as follows for the company:
  - Actuarial methodology and other changes, negative R54 million (2011: negative R185 million).
  - Experience basis changes - negative R72 million (2011: positive R77 million). The experience basis changes are in respect of withdrawal and expense assumptions and mortality assumptions.
  - PGN 110 liability movement - negative R18 million (2011: positive R47 million).
- 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.

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Sensitivity analysis

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

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions in all future years, and not only in one given time period.

2012	**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)	21 293	21 085	21 166	21 377	20 491	21 292
Annuities (retail and employee benefits)	21 883	21 837	21 654	21 888	21 932	23 402
Employee benefits business (excluding annuities)	793	793	793	793	800	802
Investment and investment with DPF business	134 148	134 140	134 144	134 162	134 148	134 355
Total	**178 117**	**177 855**	**177 757**	**178 220**	**177 371**	**179 850**

2011	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)	21 770	21 544	21 655	21 842	21 066	21 797
Annuities (retail and employee benefits)	16 738	16 705	16 712	16 738	16 938	18 155
Employee benefits business (excluding annuities)	3 920	3 912	3 917	3 920	3 956	3 977
Investment and investment with DPF business	122 925	122 956	122 960	122 972	122 964	123 155
Total	165 353	165 117	165 244	165 472	164 924	167 084

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% (2011: 10%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R65.7 million (2011: R79.5 million) in the before-tax earnings of the company.

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

	2012 Rm	2011 Rm
19 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME		
Subordinated call notes	**1 062**	1 006
Carry positions	**7 441**	5 574
Other	**-**	1 241
	8 503	7 821
Current	**7 441**	5 674
Non-current	**1 062**	2 147
	8 503	7 821

- Subordinated call notes (unsecured) - the Financial Services Board (FSB) granted approval for Momentum Group Ltd to raise debt on 8 March 2006. Momentum Group Ltd issued R1 040 million of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by Momentum from 15 September 2015. The notes were issued at a spread of 70 basis points over the current R157 government bond yield. Fitch Ratings assigned a national Scale rating of AA-(zaf) to these notes.

  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.

  Momentum Group Ltd has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby Momentum 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 7.3) and the principal instrument have been fair valued.

  Momentum Group Ltd has sufficient cash to cover the debt.

- Carry positions (secured) - R4 617 million (2011: R5 574 million) relates to a carry position with Rand Merchant Bank that represents a sale and repurchase of assets in Momentum's annuity portfolio.

	2012 Rm	2011 Rm
20 FINANCIAL LIABILITIES AT AMORTISED COST		
Borrowings		
Promissory notes	**-**	77
	-	77
Current	**-**	77
Non-current	**-**	-
	-	77

20.1 Promissory notes

The unsecured, outstanding liability as at 30 June 2011 represented the present value of the outstanding promissory notes on the owner-occupied buildings. The effective interest rate on this liability was 13.2%. These loans were repaid in monthly instalments and were fully settled by March 2012.

NOTES TO THE FINANCIAL STATEMENTS
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21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS

21.1 Employee benefit assets

	MLPF Rm	SSPF Rm	SGPF Rm	Momentum Rm
2012				
Present value of funded obligation	(9)	(4)	(53)	(66)
Fair value of plan assets	20	6	244	270
	11	2	191	204
Applied limit	-	(2)	-	(2)
Net asset recognised	11	-	191	202
Movement in present value of funded obligation				
Balance at beginning	8	7	393	408
Interest costs	1	-	33	34
Actuarial gains/(losses)	1	(1)	(42)	(42)
Estimated benefits paid	(1)	(2)	(331)	(334)
Balance at end	9	4	53	66
Current				-
Non-current				66
				66
Movement in fair value of plan assets				
Balance at beginning	22	8	545	575
Expected return on plan assets	1	-	45	46
Actuarial losses	(2)	-	(15)	(17)
Estimated benefits paid	(1)	(2)	(331)	(334)
Balance at end	20	6	244	270
Current				-
Non-current				270
				270

	MLPF Rm	SSPF Rm	SGPF Rm	Momentum Rm
2011				
Present value of funded obligation	(8)	(7)	(393)	(408)
Fair value of plan assets	22	8	545	575
	14	1	152	167
Applied limit	-	(1)	-	(1)
Net asset recognised	14	-	152	166
Movement in present value of funded obligation				
Balance at beginning	9	630	356	995
Interest costs	1	27	30	58
Actuarial gains/(losses)	(2)	35	33	66
Estimated benefits paid	-	(685)	(26)	(711)
Balance at end	8	7	393	408
Current				-
Non-current				408
				408

NOTES TO THE FINANCIAL STATEMENTS
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	MLPF Rm	SSPF Rm	SGPF Rm	**Momentum Rm**
Movement in fair value of plan assets				
Balance at beginning	22	633	455	1 110
Expected return on plan assets	2	28	39	69
Actuarial gains	2	32	77	111
Estimated benefits paid	(4)	(685)	(26)	(715)
Balance at end	22	8	545	575
Current				-
Non-current				575
				575

Momentum Staff Pension Funds (SPFs)

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. 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 were as at 30 June 2012, and all three funds were found to be in a sound financial position. The recommended employer contribution rate to the MLPF is 10% of pensionable salaries in order to meet the ongoing accrual of benefits.

Momentum Group Ltd, as the employer, and the employees also contribute to the defined contributions staff pension fund. The employee is paid his share of the fund at the benefit date.

The key valuation assumptions for the Momentum SPFs are:

Assumptions	**Base**	
Discount rate	9%	(2011: 9%)
Expected rate of return on plan assets	6%	(2011: 8%)
Salary inflation	7%	(2011: 8%)
Net post-retirement interest rate	2%	(2011: 6%)
Normal retirement age	62 years	
Mortality		
Pre-retirement	0	
Post-retirement	PA(90) - Rated down four years	

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

The plan assets as a percentage (%) comprise:	**MLPF**	**SSPF**	**SGPF**
2012			
Equity securities	-	-	-
Debt securities	-	-	-
Cash equivalents	100	100	100
	100	**100**	**100**
2011			
Equity securities	-	-	1
Debt securities	4	-	-
Cash equivalents	96	100	99
	100	100	100

Actual return on assets
The actual return on assets of the funds is 8% (2011: 14.3%) for the company, which amounts to R69 million (2011: R180 million).

Previous year's balances	2010 Rm	2009 Rm	2008 Rm
Present value of funded obligations	(995)	(931)	(1 282)
Present value of plan assets	1 110	1 014	1 487
Recognised surplus in fund	113	83	205

Other
The total movement of R36 million (2011: R53 million) is recognised in the income statement in employee benefit costs (refer note 32). The best estimate of the employer's contributions for 2013 is R48 million for the company.

	2012 Rm	2011 Rm
21.2 Employee benefit obligations		
(a) Post-retirement medical benefits	**81**	75
(b) Share scheme obligations	**9**	48
(c) Leave pay liability	**86**	84
(d) Staff and management bonuses	**26**	32
(e) Cash-settled arrangements	**189**	112
	391	351
Current	**26**	32
Non-current	**365**	319
	391	351

Movements in employee benefit obligations are included in the income statement.

(a) **Post-retirement medical benefits**	2012 Rm	2011 Rm
Balance at beginning – unfunded	**75**	65
Current service costs	**1**	-
Interest costs	**7**	6
Actuarial gains	**1**	4
Benefits paid	**(3)**	-
Balance at end – unfunded	**81**	75

Previous years' balances	2010 Rm	2009 Rm	2008 Rm
Post-retirement medical benefit obligation	65	79	74

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

The key valuation assumptions are:

Assumptions	Base assumption	Change in assumption	Change in value of liability Decrease in assumption Rm	Increase in assumption Rm
Healthcare cost inflation rate				
Defined contribution fund	7.3% (2011: 7.5%)	1%	(2)	2
Valuation rate of interest/ discount rate	8.8% (2011: 9.0%)			
Administration fee inflation	6.3% (2011: 6.3%)	1%	(7)	8
Normal retirement age	62 years	1 year	1	(1)
Mortality				
Pre-retirement	None			
Post-retirement	PA(90)-2	1 year	3	(3)

	2012 Rm	2011 Rm
(b) **Share scheme obligations**		
Momentum share schemes	9	48
	9	48
Momentum share schemes		
These are schemes still linked to FirstRand Ltd shares		
Balance at beginning	48	-
Transfer from cash-settled schemes	-	48
Benefits paid	(39)	-
Balance at end	9	48

The FRSIS, FRBET and FRBNDT were transferred from equity settled share schemes in 2010 to employee benefit obligations. The Forfeitable Share Plan (FSP) was similarly transferred from the cash-settled share schemes. Refer to note 14(e) for details.

As detailed below, the employees are remunerated on shares, other than shares of the holding company or subsidiary company, and the schemes therefore now report under employee benefit obligations.

The FirstRand Share Incentive Scheme (FRSIS)
This scheme provided a facility to employees of the company to acquire shares in FirstRand Ltd, the previous holding company of Momentum Group Ltd. The primary purpose of this scheme was to appropriately attract, incentivise and retain managers within the company. All the options relating to this scheme were exercised during 2011.

The FirstRand Black Employee Trust (FRBET)
This trust was set up specifically for the benefit of black employees. After the initial allocation, the primary purpose of this scheme is to appropriately attract, incentivise and retain black managers within the company. The obligation under this scheme was taken over by FirstRand.

FirstRand Black Non-executive Directors' Trust (FRBNDT)

The beneficiaries of this trust are the black non-executive directors of Momentum Group Ltd. The benefit is based on the share price of FirstRand Ltd. Distribution to beneficiaries will take place on 31 December 2014. The obligation under this scheme was taken over by FirstRand Ltd.

Forfeitable Share Plan (FSP)

This is a remuneration scheme that grants selected employees free FirstRand shares that will vest over a period of two years. The shares are forfeited if the employee leaves the employment of the company before the end of the vesting period of two years. During the two-year vesting period the shares are held in trust for the employees and all dividends accrue to the employees for the duration of the vesting period.

	2012	2011	
	FSP	FRSIS	FSP
Options in force at beginning of year (thousands)	**1 900**	4 900	1 900
Granted at prices ranging between (cents)	-	1 533-1 787	-
Options exercised/ released during year (thousands)	**(1 900)**	(4 800)	-
Market value range at date of exercise/release	**2 085**	1 860 - 2 139	-
Options cancelled/lapsed during year (thousands)	**-**	(100)	-
Granted at prices ranging between (cents)	-	1 533	-
Options in force at end of year (thousands)	-	-	1 900
Number of participants	-	-	18
Options outstanding (by expiry date) at 30 June:			
Financial year 2011/2012	-	-	1 900

		2012	2011
		Rm	Rm
(c)	**Leave pay liability**		
	Balance at beginning	**84**	79
	Provisions for current year	**3**	6
	Paid during year	**(1)**	(1)
	Balance at end	**86**	84
(d)	**Staff and management bonuses**		
	Balance at beginning	**32**	32
	Provisions for current year	**37**	23
	Paid during year	**(42)**	(15)
	Reversal of provision	**(1)**	(8)
	Balance at end	**26**	32

	2012 Rm	2011 Rm
(e) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**112**	68
Additional provisions	**103**	79
Benefits paid	**(26)**	13
Transfer to employee benefit obligations	**-**	(48)
Balance at end	**189**	112
Current	**124**	73
Non-current	**65**	39
	189	112

Momentum share schemes

The company had various cash-settled share schemes in place at the time of the merger with Metropolitan in December 2010. The FirstRand share appreciation right scheme and the Conditional Share Plan were replaced by the Momentum Conditional Share Plan (MomCSP) in December 2010 as noted below.

FirstRand Share Appreciation Right Scheme (FRSARS)

The purpose of this scheme was to provide identified Momentum employees, including executive directors, with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Ltd.

Entitlement to incentive remuneration payments was predicated on the achievement of certain key performance objectives which were set by the remuneration committee prior to each grant of appreciation rights to participating employees.

Appreciation rights may only be exercised up to one third of the total number of rights issued after the third, two-thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved. This scheme was replaced with the new Momentum Conditional Share Plan on 1 December 2010 - refer below.

Conditional Share Plan (CSP)

The conditional award comprises a number of FirstRand shares that vest conditionally over a period of three years. The employee makes no payment for these shares upon vesting. The number of shares that vest is determined by the extent to which the performance conditions are met.

Conditional awards are made annually and vesting is subject to specified financial and non-financial performance, which will be set annually by the remuneration committee. This scheme was replaced with the new Momentum Conditional Share Plan on 1 December 2010 - refer below.

Momentum Sales Scheme (MSS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations are made twice a year to financial planners reaching a certain minimum production level. The qualification criteria are reviewed annually. This scheme was previously linked to the value of FirstRand Ltd shares. In December 2010, the scheme was modified to make reference to MMI Holdings Ltd shares instead.

When the shares vest, Momentum Group Ltd makes a cash payment to a third party who purchase MMI Holdings Ltd shares on behalf of the employee. No shares are issued by the company and therefore the scheme remains cash-settled.

Momentum Conditional Share Plan (MomCSP)

The purpose of the MomCSP is to serve as a substitution scheme for (i) the FirstRand Ltd Conditional Share Plan 2009, (ii) the FirstRand Ltd Share Appreciation Rights Scheme 2008, (iii) the FirstRand Ltd Share Appreciation Rights Scheme 2007 and (iv) the FirstRand Ltd Share Appreciation Rights Scheme 2006 (the FirstRand appreciation right scheme and Conditional Share Plan above) in respect of the Momentum employees who participated in the aforementioned schemes prior to the merger between Metropolitan and Momentum.

The terms of this scheme are essentially the same as the FRSARS and CSP but all references to FirstRand Ltd shares are now MMI Holdings Ltd shares.

Momentum Group Ltd will not issue shares in settlement of vested shares under the MomCSP and therefore the scheme is considered cash settled for the company.

	FRSARS '000	CSP '000	MSS '000	MomCSP '000
Options in force at 1 July 2010 (thousands)	25 800	4 700	2 300	-
Granted at prices ranging between (cents)	1 138-2 053	-	1 648	-
Weighted average (cents)	1 609	-	-	-
Options granted during year (thousands)	-	-	2 100	10 400
Granted at prices ranging between (cents)	-	-	2 103	-
Weighted average (cents)	-	-	2 103	-
Options cancelled/lapsed during year (thousands)	(25 800)	(4 700)	(4 400)	(300)
Granted at prices ranging between (cents)	1 138-2 053	-	1 648-2 103	-
Weighted average (cents)	1 609	-	-	-
Replaced link to FirstRand shares with MMI shares	-	-	5 700	-
Options in force at 30 June 2011 (thousands)	-	-	**5 700**	**10 100**
Granted at prices ranging between (cents)			**1 306 - 1 666**	-
Options granted / transferred in/out between companies during year (thousands)			**5 900**	**200**
Granted at prices ranging between (cents)			**1699 - 1903**	-
Options exercised/ released during year (thousands)			-	**(1 700)**
Market value of range at date of exercise/release			-	**1654-1862**
Options cancelled/lapsed during year (thousands)			**(800)**	**(500)**
Granted at prices ranging between (cents)			**1 306 - 1903**	-
Options in force at 30 June 2012 (thousands)			**10 800**	**8 100**
Number of participants			**450**	**285**

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

2012	**MSS '000**	**MomCSP '000**
Financial year 2012/2013	600	6 900
Financial year 2013/2014	1 600	1 200
Financial year 2014/2015	3 700	-
Financial year 2015/2016	2 900	-
Financial year 2016/2017	2 000	-
Total outstanding shares	**10 800**	**8 100**

Valuation methodology in respect of the MomCSP and the MSS schemes:

The MSS and MomCSP share scheme valuation is based on the number of units expected to be outstanding on vesting date, multiplied by the closing share price of MMI shares of R18.00 (2011: R16.99) and taking the remaining vesting period into account.

MMI Long-term Retention Award Scheme (MMI LTRAS)

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

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

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

MMI Long-term Incentive Plan (MMI LTIP)

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

The performance units have performance criteria based on minimum hurdles related to the return on embedded value of the group during the period July 2011 to June 2014. The units will therefore vest after a period of three years, and the group's performance will be averaged over the same period to determine whether the criteria have been met.

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

	2012		2011
	MMI LTIP	**MMI LTRAS**	**MMI LTRAS**
	'000	**'000**	**'000**
Number of units outstanding			
At beginning of year	-	3 900	-
Allocations	6 100	-	3 900
At end of year	6 100	3 900	3 900

Inputs used in valuation of the MMI share schemes

	2012		2011
	MMI LTIP	**MMI LTRAS**	**MMI LTRAS**
Award date	01/10/2011		01/01/2011
Vesting date	01/10/2014		01/12/2013
Outstanding units (thousands)	6 100		3 900
Valuation assumptions include:			
Outstanding tranche period in years	2.4		1.6
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	18.00	18.00	16.99
Option price at award date	-	-	-
Number of employees	181	32	33

Share based payment expense

The share based payment expense relating to cash settled schemes is R103 million (2011: R79 million) for the company and is disclosed under employee benefit expenses in note 32.

NOTES TO THE FINANCIAL STATEMENTS
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	2012 Rm	2011 Rm
22 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	**1 370**	1 248
Claims in process of settlement		
Insurance contracts	**442**	874
Investment contracts with DPF	**182**	365
Premiums paid in advance	**614**	-
Due to reinsurers	**132**	9
Payables arising from investment contracts	**663**	926
Deferred revenue liability	**202**	201
Loans to subsidiaries	**442**	492
Due to agents, brokers and intermediaries	**497**	423
Unsettled trades	**(35)**	1 950
Scrip lending	**607**	2 905
Other payables	**577**	1 252
	4 323	9 397
Current	**3 913**	8 465
Non-current	**410**	932
	4 323	9 397
Reconciliation of deferred revenue liability		
Balance at beginning of year	**201**	356
Deferred income relating to new business	**51**	54
Amount recognised in income statement	**(50)**	(209)
Balance at end of year	**202**	201

Included in other payables is an amount of R607 million (2011: R2 905 million) relating to scrip lending. Refer to note 7.1.

	2012 Rm	2011 Rm
23 PROVISIONS		
Balance at beginning of year	**68**	61
Additional provisions	**-**	27
Utilisation of provisions	**-**	(15)
Unutilised amounts reversed	**(2)**	(5)
Balance at end of year	**66**	68
Current	**66**	68
Non-current	**-**	-
	66	68

NOTES TO THE FINANCIAL STATEMENTS
(continued)

		2012 Rm	2011 Rm
24	**NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE**		
	Non-current assets held for sale	**166**	-
	Investment property	**22**	-
	Investment in associates	**144**	-

The 2012 non-current assets held for sale balance relates to investment property held by Freehold of R22 million which will be sold in the next financial year. It also relates to the investment in Momentum Life Assurance Namibia Ltd of R144 million, which was previously included in investment in associates (refer to note 6) and which was sold to MMI Holdings Ltd during July 2012.

25 INCOME TAX

25.1 Current income tax (assets)/liabilities

	2012 Rm	2011 Rm
Current income tax assets	**(30)**	(125)
Current income tax liabilities	**-**	-
	(30)	(125)
Balance at beginning	**(125)**	40
Charged to income statement	**674**	380
Paid during year	**(579)**	(545)
Balance at end	**(30)**	(125)

25.2 Income tax (credits)/expenses

	2012 Rm	2011 Rm
Current taxation	**674**	380
Shareholder tax		
South African normal tax - current period	**661**	543
South African normal tax - prior year	**-**	(161)
Contract holder tax		
Tax on contract holder funds - current period	**13**	(2)
Deferred tax	**(16)**	260
Shareholder tax		
South African normal tax - current period	**(152)**	48
Contract holder tax		
Tax on contract holder funds - current period	**136**	212
	658	640

Tax rate reconciliation	%	%
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Change in tax rate	**0.3**	-
Prior year adjustments	**-**	(6.8)
Taxation on contract holder funds	**5.9**	11.1
Non-taxable income	**(6.8)**	(5.5)
Other	**-**	1.0
Effective rate	**27.4**	27.8

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2012 Rm	2011 Rm
26 NET INSURANCE PREMIUMS		
Premiums received	**9 916**	9 861
Long-term insurance contracts	**8 525**	7 809
Investment contracts with DPF	**1 391**	2 052
Premiums received ceded to reinsurers	**(2 194)**	(1 480)
	7 722	8 381

	2012 Rm	2011 Rm
27 FEE INCOME		
Contract administration	**1 320**	1 268
Investment contract administration	**1 270**	1 059
Release of deferred front-end fees	**50**	209
Trust and fiduciary services	**331**	261
Asset management	**57**	-
Retirement fund administration	**274**	261
Other income	**286**	402
	1 937	1 931

	2012 Rm	2011 Rm
28 INVESTMENT INCOME		
Designated at fair value through income		
Dividend income – listed	**1 454**	1 381
Dividend income – unlisted	**508**	320
Dividends received from subsidiary companies	**254**	314
Interest income	**6 468**	6 421
Designated at fair value through income	**5 710**	4 272
Available-for-sale	**102**	146
Loans and receivables	**60**	62
Cash and cash equivalents	**596**	1 928
Non-financial assets	**-**	13
Rental income	**60**	51
Investment properties	**60**	51
	8 744	8 487

2011 reclassification

The company reallocated dividend income on available-for-sale investments of R146 million to interest income as a result of the reclassification of preference share investments previously included in equity securities to debt securities - refer note 7.4.

	2012 Rm	2011 Rm
29 NET REALISED AND FAIR VALUE GAINS		
Financial instruments	**9 735**	12 017
Designated at fair value through income	**9 703**	12 050
Derivative financial instruments	**30**	(33)
Available-for-sale – net realised and fair value gains/(losses)	**2**	-
Investment property	**4**	2
As per valuation	**4**	2
Other investments	**(98)**	-
	9 641	12 019

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	2012 Rm	2011 Rm
30 NET INSURANCE BENEFITS AND CLAIMS		
Long-term insurance contracts	**8 142**	8 199
Death and disability claims	**3 605**	3 472
Maturity claims	**1 963**	2 018
Annuities	**1 742**	1 706
Surrenders	**637**	815
Terminations and withdrawal benefits	**195**	188
Investment contracts with DPF	**2 284**	2 922
Death and disability claims	**79**	37
Maturity claims	**328**	293
Annuities	**4**	17
Surrenders	**219**	148
Terminations and withdrawal benefits	**1 654**	2 427
	10 426	11 121
Amounts recovered from reinsurers	**(1 149)**	(1 167)
	9 277	9 954

	2012 Rm	2011 Rm
31 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES		
Depreciation (notes 2 and 3)	**54**	48
Owner-occupied properties	**15**	19
Equipment	**39**	29
Amortisation (note 1)	**39**	39
Value of in-force acquired	**39**	39
	93	87

	2012 Rm	2011 Rm
32 EMPLOYEE BENEFIT EXPENSES		
Salaries	**1 179**	1 199
Contributions to medical aid funds	**59**	62
Defined contribution retirement fund	**89**	90
Post-retirement medical benefits	**9**	10
Retirement fund assets (note 21.1)	**(36)**	(53)
Share-based payment expenses	**103**	79
Cash-settled arrangements	**103**	79
Training costs	**67**	90
Other	**20**	16
	1 490	1 493

		2012 Rm	2011 Rm
33	**SALES REMUNERATION**		
	Commission incurred for the acquisition of insurance contracts	**847**	997
	Commission incurred for the acquisition of investment contracts with DPF	**15**	18
	Commission incurred for the acquisition of investment contracts without DPF	**683**	697
	Amortisation of deferred acquisition costs	**191**	342
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	**9**	30
		1 745	2 084
34	**OTHER EXPENSES**		
	Asset management fees	**519**	277
	Auditors' remuneration	**23**	4
	Bank charges	**25**	26
	Consulting fees	**100**	144
	Direct property operating expenses on investment property	**16**	5
	Information technology expenses	**98**	105
	Marketing costs	**121**	131
	Office costs	**177**	172
	Operating lease charges	**77**	112
	Other indirect taxes	**81**	107
	Policy services	**35**	33
	Travel expenses	**57**	48
	Other expenses and recoveries	**(228)**	(169)
		1 101	995
35	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Unsecured subordinated call notes	**68**	71
	Cost of carry and interest rate swaps	**624**	456
	Other	**57**	535
		749	1 062

NOTES TO THE FINANCIAL STATEMENTS
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36 EARNINGS PER ORDINARY SHARE

Attributable to owners of the parent	Basic earnings 2012	2011
Earnings (cents per share)	903	888
Headline earnings (cents per share)	902	888
Core headline earnings (cents per share)	969	868

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings **2012 Rm**	Restated 2011 Rm
Earnings – equity holders of the company	**1 716**	1 688
Realised gains on available-for-sale financial assets	**(2)**	-
Headline earnings (1)	**1 714**	1 688
Net realised and fair value gains on excess	**(59)**	45
Basis and other changes, and investment variances	**147**	29
Amortisation of intangible assets relating to business combinations	**39**	28
FNB Life (90%)	**-**	(169)
Merger transaction costs	**-**	29
Core headline earnings (2)	**1 841**	1 650
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 investment assets, investment variances and basis and other changes which can be volatile, secondary tax on companies, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business. STC has been added back as it will fall away and be replaced by the new dividends withholding tax effective 1 April 2012.

	2012 Rm	2011 Rm
37 CASH FLOW FROM OPERATING ACTIVITIES		
37.1 Cash utilised in operations		
Profit before tax	**2 405**	2 361
Adjusted for		
Dividends received	**(2 216)**	(2 015)
Interest received	**(6 468)**	(6 421)
Finance costs	**749**	1 062
Share of profits of associates	**(3)**	(36)
Net realised and fair value gains	**(9 735)**	(12 017)
Depreciation and amortisation expenses	**93**	87
Deferred acquisition costs movement	**(43)**	116
Share-based payment and other employee benefit expenses	**112**	89
Staff and management bonuses liability	**36**	15
Leave pay liability	**3**	6
Provisions	**(2)**	7
Reinsurance assets	**(200)**	(135)
Employee benefit assets and obligations	**(37)**	(60)
Other non-cash items	**-**	2
Changes in operating assets and liabilities		
Insurance and investment liabilities	**12 764**	13 136
Investment property	**(4)**	(2)
Assets designated at fair value through income	**8 922**	(7 048)
Investments in associate	**(9 584)**	2 869
Loans and receivables	**9**	116
Insurance and other receivables	**(222)**	12
Non-current assets held for sale	**(144)**	-
Change in employee benefit obligations	**(111)**	(3)
Other operating liabilities	**(4 576)**	1 312
Cash utilised in operations	**(8 252)**	(6 547)
37.2 Income tax paid		
Due at beginning	**(747)**	(611)
Charged to income statement	**(658)**	(640)
Charged directly to other comprehensive income	**(14)**	(41)
Other	**(1)**	-
Due at end	**841**	747
	(579)	(545)

		2012 Rm	2011 Rm
37.3	**Interest paid**		
	Unsecured subordinated call notes	(68)	(71)
	Carry and interest rate swaps	(624)	(456)
	Other	(57)	(535)
		(749)	(1 062)

38 BUSINESS COMBINATIONS

There were no business combinations for the years ended 30 June 2012 or 30 June 2011.

39 CAPITAL AND LEASE COMMITMENTS

	2012 Rm	2011 Rm
Capital commitments		
Authorised and contracted	135	-
	135	-

R12 million of the above commitments, is in respect of information technology, which will be financed from internal sources. The other R123 million is in respect of the binding sale of shares agreement with OUTsurance to acquire OUTsurance's 50% shareholding in Momentum Short-term Insurance Company Ltd.

Lease commitments

	2012 Rm	2011 Rm
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	3	16
	3	16
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	12	12
Between 1 and 5 years	8	-
	20	12

40 CONTINGENT LIABILITIES

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

41 RELATED PARTY TRANSACTIONS

41.1 Major shareholders and group companies

The holding company of Momentum 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 Momentum Group Limited are the Metropolitan group of companies, 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 Health (Pty) Limited, Momentum Manager of Managers (Pty) Limited, Momentum Global Investment Management Limited, Momentum Short-term Insurance Limited, Momentum Life Assurance Namibia (Pty) Limited and Momentum Wealth International Limited. Subsidiaries and associated companies of these companies are also related parties.

Prior to the merger between Momentum and Metropolitan effective on 1 December 2010, Momentum Group Limited was wholly owned by FirstRand Limited. Prior to this date, Firstrand Limited and its subsidiaries were defined as related parties of Momentum.

Significant subsidiaries of the company are listed in note 5. Details of the associates of the company are contained in note 6.

Various collective investment schemes in which the company invests are defined as subsidiaries as the economic ownership is greater than 50%, which 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; these are listed 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.

41.2 Transactions with directors and key management personnel and their families

Remuneration in the form of fees is paid to non-executive directors and remuneration to executive directors and key management personnel of the company. Transactions with directors are disclosed 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 2011 to 30 June 2012 Rm	1 July 2010 to 30 June 2011 Rm
Salaries and other short-term employee benefits	43	34
Post-employment benefits	3	2
Share-based payments	36	22
Director's fees	22	15
	104	73

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 21.

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

	2012	
	Insurance	Investment
	Rm	Rm
Fund value (at 30 June 2012)	N/A	192
Aggregate life and disability cover (at 30 June 2012)	155	N/A
Deposits/premiums (for 12 months to June 2012)	1	110
Withdrawals/claims (for 12 months to June 2012)	-	706

	2011	
	Insurance	Investment
	Rm	Rm
Fund value (at 30 June 2011)	N/A	763
Aggregate life and disability cover (at 30 June 2011)	78	N/A
Deposits/premiums (for 12 months to June 2011)	2	227
Withdrawals/claims (for 12 months to June 2011)	-	119

In aggregate, the company earned fees and charges totalling R31 million (2011: R29 million) on the insurance, annuities and investment products set out above.

41.3 Transactions with associated companies

There were no material transactions with associated companies other than loans advanced.

41.4 Dividends

Momentum declared a final ordinary dividend of R1 050 million (R5.54 per ordinary share) to MMI Holdings Limited for the year ended 30 June 2011, which was only provided for during the 2012 financial year, compared to a final ordinary dividend of R358 million (R1.88 per ordinary share) to FirstRand Limited for the year ended 30 June 2010, which was only provided for during the 2011 financial year.

The company also declared R700 million (2011: R600 million) in interim ordinary dividends being R3.69 (2011: R3.16) per ordinary share to MMI Holdings Limited in March 2012 (2011: March 2011). Another R1 200 million (R6.33 per ordinary share) will be provided for during the 2013 financial year (as part of the final dividend declared in September 2012).

Momentum also declared preference dividends of R30.5 million to FirstRand Limited for the year ended 30 June 2012 (2011: R33.4 million).

41.5 Post-employment benefit plans

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

42 FINANCIAL RISK MANAGEMENT

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

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

The company is currently exposed to the following risks:

Insurance risk: Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. Insured events are random and the actual number and amount of claims and benefits will vary from year to year.

Liquidity risk: Liquidity risk is the risk that the 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 arising because of the possibility that the company be required to pay its liabilities earlier than expected (as a result of unexpected policyholder behaviour).

This might arise 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises price risk, interest rate risk, currency risk and property risk. In certain instances these risks are passed on to policyholders eg. when financial instruments subject to market risk back contract holder liabilities. Property risk has been included in this section, even though it is not a financial risk, as in certain cases properties back contract holder liabilities.

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

Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, available-for-sale debt securities, held-to-maturity investments and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment contract liabilities the policyholder would carry the credit risk. The company carries the risk on shareholder assets and to a lesser extent on insurance contract liabilities.

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

42.1 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.

	2012 Rm	Restated 2011 Rm
Assets		
Carried at fair value		
Designated at fair value through income		
Equity securities	**32 496**	36 470
Local listed	**30 064**	27 043
Foreign listed	**592**	3 902
Unlisted	**1 840**	5 525
Debt securities	**50 150**	47 816
Stock and loans to government and other public bodies		
Local listed	**15 940**	13 220
Unlisted	**1 305**	2 978
Other debt instruments		
Local listed	**21 530**	19 547
Foreign listed	**353**	17
Unlisted	**11 022**	12 054
Funds on deposit and other money market instruments	**5 434**	6 324
Unit-linked investments *(refer to next table for further detail)*	**48 716**	46 840
Collective investment schemes		
Local unlisted or listed quoted	**39 630**	36 514
Foreign unlisted or listed quoted	**3 348**	7 588
Other unit linked investments		
Local unlisted	**5 738**	2 738
Investments in associates designated at fair value through income *(refer to next table for further detail)*	**13 387**	3 659
Derivative financial instruments	**2 397**	1 542
Held for trading	**2 347**	1 540
Held for hedging purposes	**50**	2
Available-for-sale	**2 849**	4 696
Equity securities		
Local listed	**2**	37
Unlisted	**4**	4
Debt securities	**2 843**	4 452
Local unlisted quoted collective investment schemes *(refer to next table for further detail)*	**-**	203
Interest in subsidiary companies	**29 855**	26 946
Carried at amortised cost		
Loans and receivables	**4 717**	4 726
Accounts receivable	**363**	474
Loans	**4 354**	4 252
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**699**	477
Cash and cash equivalents	**8 068**	10 290
Non-current assets held for sale (refer note 24 for financial assets)	**166**	-
Other assets	**4 987**	4 922
Total assets	**203 921**	194 708

2011 reclassification

Refer to note 7.4 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.

	2012 Rm	2011 Rm
Collective investment schemes		
Local and foreign	**56 365**	47 761
Equity	**31 246**	26 137
Interest-bearing	**10 812**	10 593
Property	**1 010**	870
Mixed	**8 373**	5 030
Money market	**4 924**	5 131
Unlisted and unquoted other unit-linked investments	**5 738**	2 941
Local and foreign		
Equity	**3 742**	798
Interest-bearing	**1 258**	22
Mixed	**738**	2 121
	62 103	50 702
Designated at fair value through income: unit-linked investments	**48 716**	46 840
Investments in associates designated at fair value through income	**13 387**	3 659
Available-for-sale: local unlisted quoted collective investment schemes	**-**	203
	62 103	50 702

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

	2012 Rm	2011 Rm
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	**123 319**	110 769
Designated at fair value through income	**8 503**	7 821
Subordinated call notes	**1 062**	1 006
Carry positions	**7 441**	6 815
Derivative financial instruments	**1 080**	638
Held for trading	**1 080**	638
Carried at amortised cost		
Financial liabilities	**-**	77
Promissory notes	**-**	77
Other payables	**4 323**	9 397
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**624**	1 239
Payables arising from investment contracts	**663**	926
Other payables at amortised cost	**3 036**	7 232
Insurance contract liabilities	**43 969**	42 428
Investment contracts with DPF	**10 829**	12 156
Other non-financial liabilities	**1 328**	1 291
Total liabilities	**193 351**	184 577

43 Capital management

43.1 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.

43.2 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 investment mandate of the capital portfolio as well as the targeted (i.e. required) level of economic capital. The investment of capital affects the inherent risk profile and therefore the required level of capital.

43.3 Overview of capital management developments

43.3.1 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 requirements for Momentum Group Ltd, is quantified using internal capital projection models. The internal capital models use 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.

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 in the company. All dividends and other capital reductions are approved by the board, as well as by the statutory actuary of the company.

43.3.2 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 professional guidance 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.

The capital adequacy requirement of the company is included in retained earnings and must be maintained as statutory capital.

43.3.3 Regulatory capital developments

The FSB is in the process of introducing a new solvency regime for the South African long-term and short-term insurance industries to be in line with European standards. To achieve this, the FSB launched its Solvency assessment and management ("SAM") project during 2010.

The basis of the SAM regime will be the principles of the Solvency II directive, as adopted by the European parliament, but adapted to specific South African circumstances where necessary. The intention with the FSB's SAM project is to achieve third country equivalence status with the Solvency II regime.

It is expected that SAM will ultimately result in substantial changes to the South African insurance capital management landscape, but the impact of SAM on required capital levels is still uncertain at this stage. It is therefore appropriate to adopt a prudent approach towards capital management until clarity of the eventual impact of SAM is obtained.

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 participated in the first South African Quantitative Impact Study ("SA QIS1"), the results of which were submitted to the FSB during the second part of 2011. It is also actively participating in the second Quantitative Impact Study (SA QIS2) under the current proposed SAM/Solvency II regime.

The results of SA QIS2 will be submitted to the FSB in October 2012. The findings of SA QIS2 will provide the company with a more informed view and improved understanding of the potential impact of SAM on its future capital position and management.

43.4 Investment mandate for the shareholder portfolio

Momentum's shareholder assets are currently backed by cash and near-cash instruments.

43.5 Sources of capital utilised

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

Momentum Group Ltd	**2012**		2011	
Regulatory capital	**Rm**	**%**	**Rm**	**%**
Tier 1	8 233	89	7 991	89
- core tier 1 (i.e. equity capital)	7 753	84	7 511	84
- non-redeemable preference shares	480	5	480	5
Tier 2: subordinated qualifying debt	1 062	11	1 006	11
Qualifying statutory capital	9 295	100	8 997	100

43.6 Regulatory capital position

At 30 June 2012, Momentum's CAR was covered 2.3 times (2011: 2.3 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

Momentum Group Ltd	**2012**	2011
Regulatory capital position	**Rm**	Rm
Statutory excess over liabilities	9 295	8 997
CAR	4 090	3 885
CAR cover (times)	2	2

Momentum's capital position remained the same over the twelve months ended 30 June 2012, as a result of the statutory surplus increasing by the same proportion as the CAR.

The increase in the surplus was mainly the result of the positive contribution from Momentum's operating profits, which was partly offset by the dividends that Momentum paid to MMI Holdings during the year under review.

The increase in CAR is mainly attributed to a combination of the following (offsetting) factors: an increase in insurance and surrender risks, an increase in investment risk due to lower yields,reduction in capital requirements on minimum maturity guarantees due to a hedging programme and lower discretionary participation CAR due to higher Bonus Stabilisation Accounts.

43.7 Economic capital

The economic capital requirements for Momentum Group Limited is based on internal capital projection models (using stochastic modelling techniques). The strategic operating subsidiaries of Momentum hold sufficient capital as required for the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (i.e. to look through the economic cycle).

Given the current uncertain 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 pursues which would require capital. Based on future capital projections however, the company is comfortable that the current level of the capital buffer should be sufficient to meet future strategic requirements and the potential impact of SAM.

43.8 Credit risk

On 28 March 2012, Fitch reviewed the credit ratings of Momentum Group Limited. The National Insurer Financial Strength ("IFS") rating of the company was affirmed at 'AA(zaf)'. The company was assigned a Stable Outlook. The affirmation is based on the company's strong capital position, well established domestic franchise and strong and diversified distribution network.

44 **Insurance and investment business**

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

2012	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	9 659	10 829	-	**20 488**
Individual contracts with DPF	8 611	6 598	-	**15 209**
Smoothed bonus	5 532	6 598	-	12 130
Conventional with-profit	3 079	-	-	3 079
Group contracts with DPF	1 048	4 231	-	**5 279**
Smoothed bonus	-	1 068	-	1 068
Smoothed bonus – fully vesting	-	3 163	-	3 163
With-profit annuity	1 048	-	-	1 048
Market-related business	12 551	-	118 140	**130 691**
Individual market-related business	12 551	-	79 919	92 470
Group market-related business	-	-	38 221	38 221
Other business	21 759	-	5 179	**26 938**
Non-profit annuity business	20 935	-	996	21 931
Guaranteed endowments	-	-	4 182	4 182
Other non-profit business	824	-	1	825
Total contract holder liabilities	43 969	10 829	123 319	**178 117**

2011	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	9 132	12 156	-	21 288
Individual contracts with DPF	7 937	7 256	-	15 193
Smoothed bonus	4 948	7 256	-	12 204
Conventional with-profit	2 989	-	-	2 989
Group contracts with DPF	1 195	4 900	-	6 095
Smoothed bonus	-	405	-	405
Smoothed bonus – fully vesting	-	4 495	-	4 495
With-profit annuity	1 195	-	-	1 195
Market-related business	13 784	-	106 026	119 810
Individual market-related business	13 782	-	71 224	85 006
Group market-related business	2	-	34 802	34 804
Other business	19 512	-	4 743	24 255
Non-profit annuity business	18 808	-	997	19 805
Guaranteed endowments	-	-	3 636	3 636
Other non-profit business	704	-	110	814
Total contract holder liabilities	42 428	12 156	110 769	165 353

44.1 Classes of insurance and investment businesses

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 carry on 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 Momentum 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 Momentum 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:
  - Momentum traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears. These are all closed to new business.
  - Momentum traditional smoothed bonus business sold on an individual life basis as investment options on the investo and wealth platforms, with annual bonuses declared in arrears. These are still open to new business.
  - Momentum fully vesting smoothed bonus business sold on both individual and institutional basis, with monthly bonuses declared in advance. These are still open to new business.

- As at 30 June 2012, the market value of underlying assets as a percentage of accumulated fund accounts was greater than 92.5% for all these classes of smoothed bonus business. The market value of the underlying assets in respect of all smoothed bonus business at 30 June 2012 was R16 billion (2011: R15 billion) for the company.

- 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

- Certain guaranteed endowments are five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched by a combination of bonds and interest rate derivatives from inception.

- Credit risk for these policies is borne by the shareholder. The structured assets backing this business have a credit rating that corresponds to senior bank debt, equivalent to a long-term rating of AA from Fitch.

Financial instruments

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

Other non-profit business

- These are primarily insurance contracts of varying duration and inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the company is 10% (2011: 11.1%).
- 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 2.1% (2011: 2.45%) 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 and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in PGN110 – Allowance for embedded investment derivatives. Refer note 18.
- Currently certain structures are in place to partially match movements in this liability. It is, however, 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.

44.2 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 to ensure that a legal entity remains solvent and able to meet liabilities at all times. The statutory actuary reports on these matters to the board, independent audit committee and the Financial Services Board. The actuarial committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The committee has been appointed by the board to ensure that the highly 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 Momentum's approach to the management of these risks.

44.2.1 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.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract.

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 of a large number of claims from a single event or in a particular geographical area.

- How risks are managed:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. 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 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. 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 business - on individual lives that are medically underwritten and that are not members of employee benefit schemes, Momentum retains 85% of the risk on amounts of cover not exceeding R5 million. Amounts of cover in excess of R5 million are fully reinsured. On employee benefits business, the maximum retention is R4 million per life, with 100% of the excess being reinsured.
  - Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. Momentum's catastrophe reinsurance cover for the current financial year is R580 million in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

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

	2012			2011		
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	**131 270**	**493**	**480**	142 686	940	565
20 001 - 50 000	**61 742**	**813**	**755**	61 963	1 510	865
50 001 - 100 000	**41 460**	**1 786**	**1 590**	41 747	1 985	1 846
100 001 - 200 000	**164 636**	**4 057**	**3 464**	164 988	4 526	4 035
200 001 - 500 000	**51 949**	**12 352**	**10 171**	54 647	13 872	11 915
500 001 - 1 000 000	**215 461**	**18 255**	**14 608**	210 800	20 598	17 240
>1 000 000	**336 904**	**513 220**	**478 281**	297 155	494 145	455 459
	1 003 422	**550 976**	**509 349**	973 986	537 576	491 925

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - life insurance (mostly lump sum, but some children and spouse's annuities);disability insurance (lump sum and income protection);
  - dread disease cover;
  - continuation of insurance option.
- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry.
  - The products are, as a rule, quite simple and mostly basic products with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an 'actively at work' clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This is waived if the company takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause applies, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.
  - For Momentum business, lump sum benefits in excess of R4 million and disability income benefits above R30 000 per month are reinsured.
  - There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels.
  - In addition, there is a catastrophe treaty in place for group business. Such a treaty is particularly important for Momentum's 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	**2012**	2011
0-1 000	**3 910**	3 910
1 001 - 5 000	**72**	72
>5 001	**26**	26

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:

	2012		2011	
Annuity amount per annum (Rands)	**Number of annuitants**	**Total amount per annum Rm**	Number of annuitants	Total amount per annum Rm
0 - 10 000	**51 629**	**216**	53 882	223
10 001 - 50 000	**30 909**	**661**	29 379	613
50 001 - 100 000	**5 829**	**404**	4 578	316
100 001 - 200 000	**2 674**	**366**	1 832	247
>200 001	**1 055**	**345**	563	175
	92 096		90 234	

Permanent health insurance business

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

44.2.2 Contract persistency risk

- Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. Losses may, however, still occur if the expenses incurred exceed the value of a policy, which normally happens early on in the term of recurring premium policies or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, for example contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical or death benefits.

How risks are managed:

- The recovery of expenses is in line with the regulatory limitations introduced in 2006. Therefore, in addition to setting realistic assumptions with 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 resources are directed towards the sale of business with higher persistency.
- Effective 1 January 2009, industry commission regulations have been reformed such that the commission paid on many products with investment contract features is more closely aligned to premium collection and the terms of the contract. This reduces the risk of non-recovery of commission on new policies subsequently cancelled or paid up which may improve persistency.

44.2.3 Expense risk

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

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

44.2.4 Business volume risk

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

45 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 enterprise risk management framework is therefore applicable to the risk management of the schemes. Refer to Annexure A for the list of schemes consolidated.

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

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

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

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

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

The collective investment schemes not consolidated are included in the table in note 42.1 as Collective investment schemes and Investments in associates designated at fair value through income.

46 Liquidity risk

Liquidity risk governance

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

The executive balance sheet management (BSM) committee is responsible for the company's liquidity and funding risk management with the board BSM committee providing oversight for funding and liquidity risks assumed on the company's statement of financial position on behalf of shareholders.

Investments are made in assets that are expected to provide cash flows matching liability outflows as and when these are expected to occur which is monitored by the company policyholder investment committee.

Liquidity risk management

The principal risk relating to liquidity comprises the company's exposure to policyholder behaviour, eg benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 92% (2011: 90%) 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.

Non-profit annuities policyholder benefits

These contracts provide guaranteed annuity benefits and all the liquidity risk that arises is borne by the company. As discussed in the market risk section, the expected liability outflow is matched as closely as possible with assets of an appropriate nature and term in order to match the duration and convexity of the portfolio and thus mitigate the interest rate risk exposure. The liquidity risk is thus mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term.

The asset portfolio is a diversified portfolio of liquid cash and fixed interest instruments (government bonds, corporate bonds, interest rate swaps, promissory notes) that closely matches the liquidity profile of the liability cash flow and this mitigates the liquidity risk.

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, 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.

Smooth bonus business policyholder benefits and Non-profit annuities 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 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's fund 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	**2012**		2011	
	%	Rm	%	Rm
High [(1)]	74%	**151 148**	71%	138 573
Medium [(2)]	24%	**48 554**	27%	51 947
Low/illiquid [(3)]	2%	**3 851**	2%	4 022
Other assets not included above				
- non-current assets held for sale		**166**		-
- employee benefit asset		**202**		166
Total assets		**203 921**		194 708

(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:

2012 R million	Carrying value	Total	Open ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts	43 969	43 969	33	5 191	12 759	9 998	15 988
Linked (market-related) business							
Individual	12 551	12 551	4	1 519	4 044	2 601	4 383
Employee benefits	-	-	-	-	-	-	-
Smoothed bonus business							
Individual	5 533	5 533	21	674	1 284	1 281	2 273
Employee benefits	-	-	-	-	-	-	-
Conventional with-profit business	3 078	3 078	-	86	425	233	2 334
Non-profit business							
Individual	127	127	8	87	1	47	(16)
Employee benefits	697	697	-	470	73	56	98
Annuity business	21 983	21 983	-	2 355	6 932	5 780	6 916
Investment contracts with DPF	10 829	10 829	4 172	1 483	2 404	1 456	1 314
Smoothed bonus business							
Individual	6 598	6 598	537	948	2 373	1 438	1 302
Employee benefits	4 231	4 231	3 635	535	31	18	12
Investment contracts	123 319	122 505	64 300	6 751	18 619	5 775	27 060
Linked (market-related) business							
Individual	79 919	78 398	26 079	6 058	13 608	5 620	27 033
Employee benefits	38 221	38 221	38 221	-	-	-	-
Smoothed bonus business							
Individual	-	-	-	-	-	-	-
Non-profit business							
Individual	4 183	4 821	-	318	4 503	-	-
Annuity business	996	1 065	-	375	508	155	27
Total policyholder liabilities under insurance and investment contracts	178 117	177 303	68 505	13 425	33 782	17 229	44 362
Financial liabilities designated at fair value through income	8 503	8 751	-	7 453	1 298	-	-
Subordinated call notes	1 062	1 298	-	-	1 298	-	-
Carry positions	7 441	7 453	-	7 453	-	-	-
Derivative financial instruments	1 080						
Amortised cost	-	-	-	-	-	-	-
Promissory notes	-	-	-	-	-	-	-
Other payables at amortised cost	3 507	3 507	-	3 219	211	-	77
Other liabilities	2 144						
Total liabilities	193 351	189 561	68 505	24 097	35 291	17 229	44 439

- 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.

- The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted, expected cash flows. All other values are based on contractual undiscounted cash flows.
- Cash flows for derivative financial instruments have been disclosed on a net basis below.
- Other payables exclude premiums paid in advance and deferred revenue liabilities.
- Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies. It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 18.

Financial liabilities designated at fair value

- The subordinated call notes are callable by Momentum Group Limited from 15 September 2015, and will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under this bond.
- Carry positions mature shortly after 30 June 2012 and the funding thereof forms part of the general portfolio management.

Financial liabilities carried at amortised cost

- The promissory notes on the owner occupied buildings were repayable in monthly instalments until March 2012.

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2011 R million	Carrying value	Total	Open ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts	42 428	42 428	1 264	5 564	12 896	9 704	13 000
Linked (market-related) business							
Individual	13 783	13 783	851	1 447	4 429	3 121	3 935
Employee benefits	1	1	1	-	-	-	-
Smoothed bonus business							
Individual	4 947	4 947	-	524	1 389	1 267	1 767
Employee benefits	1 195	1 195	-	146	421	302	326
Conventional with-profit business	2 989	2 989	-	750	70	35	2 134
Non-profit business							
Individual	705	705	207	423	31	277	(233)
Employee benefits	-	-	-	-	-	-	-
Annuity business	18 808	18 808	205	2 274	6 556	4 702	5 071
Investment contracts with DPF	12 156	12 156	3 923	2 128	2 472	2 038	1 595
Smoothed bonus business							
Individual	7 256	7 256	505	692	2 453	2 024	1 582
Employee benefits	4 900	4 900	3 418	1 436	19	14	13
Investment contracts	110 769	110 271	104 710	673	4 641	186	61
Linked (market-related) business							
Individual	71 053	69 764	69 764	-	-	-	-
Employee benefits	34 946	34 946	34 946	-	-	-	-
Smoothed bonus business							
Individual	133	-	-	-	-	-	-
Non-profit business							
Individual	3 640	4 454	-	396	4 058	-	-
Annuity business	997	1 107	-	277	583	186	61
Total policyholder liabilities under insurance and investment contracts	165 353	164 855	109 897	8 365	20 009	11 928	14 656
Financial liabilities designated at fair value through income	7 821	7 821	-	6 840	981	-	-
Subordinated call notes	1 006	1 006	-	25	981	-	-
Carry positions	6 815	6 815	-	6 815	-	-	-
Derivative financial instruments	638						
Amortised cost	77	77	-	77	-	-	-
Promissory notes	77	77	-	77	-	-	-
Other payables at amortised cost	9 196	9 249	-	8 473	776	-	-
Other liabilities	1 492						
Total liabilities	184 577	182 002	109 897	23 755	21 766	11 928	14 656

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.

2012 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	301	301	185	(20)	136
Interest rate derivatives	993	1 551	(73)	1 335	289
Bond derivatives	60	62	89	10	(37)
Credit derivatives	2	3	-	-	3
Currency derivatives	(89)	(89)	(1)	(7)	(81)
	1 267	1 828	200	1 318	310
Derivatives held for hedging					
Fair value hedges	50	50	-	50	-
Total net undiscounted cash flow projections	1 317	1 878	200	1 368	310
Derivative financial instruments					
Assets	2 397				
Liabilities	(1 080)				
	1 317				

2011 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(13)	41	41	-	-
Interest rate derivatives	778	106	(50)	22	134
Bond derivatives	63	4 204	103	3 706	395
Credit derivatives	2	(1)	(1)	-	-
Currency derivatives	72	72	-	22	50
	902	4 422	93	3 750	579
Derivatives held for hedging					
Fair value hedges	2	2		2	
Total net undiscounted cash flow projections	904	4 424	93	3 752	579
Derivative financial instruments					
Assets	1 542				
Liabilities	(638)				
	904				

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47 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 2012 Rm	Carrying value 2011 Rm	Price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**32 496**	36 470	✓✓		✓
Debt securities	**50 150**	47 816	✓	✓✓	✓
Funds on deposit and other money market instruments	**5 434**	6 324	✓	✓✓	✓
Unit-linked investments	**48 716**	46 840	✓✓	✓	✓
Investments in associates designated at fair value through income	**13 387**	3 659	✓✓	✓	✓
Derivative financial instruments	**2 397**	1 542	✓✓		✓
Available-for-sale					
Equity securities	**6**	41	✓✓		
Debt securities	**2 843**	4 452	✓	✓✓	
Local unlisted quoted collective investment schemes	**-**	203	✓✓		
Interest in subsidiary companies	**29 855**	26 946			✓✓
Carried at amortised cost					
Loans and receivables					
Accounts receivable	**363**	474			✓
Loans	**4 354**	4 252		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**699**	477		✓✓	✓
Cash and cash equivalents	**8 068**	10 290		✓✓	✓
Non-current assets held for sale (refer note 24 for financial assets)	**166**	-		✓✓	
Other assets	**4 987**	4 922	n/a	n/a	n/a
Total assets	**203 921**	194 708			

	Carrying value 2012 Rm	Carrying value 2011 Rm	Price risk	Interest rate risk	Currency risk
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**123 319**	110 769	✓✓	✓✓	✓✓
Designated at fair value through income					
Subordinated call notes	**1 062**	1 006		✓✓	
Carry positions	**7 441**	6 815	✓	✓✓	
Derivative financial instruments	**1 080**	638			
Carried at amortised cost					
Financial liabilities					
Promissory notes	**-**	77		✓✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**624**	1 239			✓
Payables arising from investment contracts	**663**	926			✓
Other payables at amortised cost	**3 036**	7 232			✓
Insurance contract liabilities	**43 969**	42 428	n/a	n/a	n/a
Investment contracts with DPF	**10 829**	12 156	✓✓	✓✓	✓✓
Other non-financial liabilities	**1 328**	1 291	n/a	n/a	n/a
Total liabilities	**193 351**	184 577			

Market risk for shareholders is the risk that the fair value on 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 occur 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

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 the company's statement of financial position on behalf of shareholders.

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. 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 price, interest rate, currency and property price risks are discussed and disclosed below.

Market risk management per product

Various product lines in this category are offered, with some products closed to new business.

Assets are invested in a balanced mix of local and offshore equities, fixed interest assets, property and cash, according to the asset manager's best investment view. The Investment committee regularly monitors the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for smoothed bonus products.

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, policyholders' reasonable 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
- to actually declare lower bonuses
- 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 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 to ensure that withdrawal benefits do not exceed the market values. This is to protect the remaining policyholders.
- the use of short term derivative hedging strategies to protect the funding level against further deterioration due to poor investment performance
- using funds in the additional BSA to temporarily or permanently top up the BSA on recommendation of the Actuarial committee and approval from the Board. This is a general BSA set aside as a "buffer" to support all smoothed bonus business. This account is not attributable to any specific class of smoothed bonus business and is not intended for distribution under normal market conditions.
- in very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual contracts offering investment guarantees

The company has a book of universal life business that is closed to new business that offers minimum maturity values, based on a specified rate of investment return. This guaranteed rate is around 4.5% pa for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios. 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 (also around 4.5% per year).

These guarantees are no longer automatically offered on new business. Policyholders do, however, have the option to purchase a minimum guaranteed return of up to 3.5% per annum. 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 the event of a 30% fall in market value of equities and an adverse move of 25% in interest rates.

Group contracts with discretionary participation features (DPF)

The Momentum secure bonus, Momentum structured growth and Momentum capital plus portfolios are offered to institutional investors and provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Extensive use is made of derivative instruments to minimise downside market risk in the group DPF portfolios. Because of this strategy, BSAs in respect of group DPF business are small, relative to the BSAs on individual (retail) business.

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, 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 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, and a mismatching liability is raised as a component of the investment stabilisation account.

As an indication of the robustness of the asset liability management in respect of the company, it is worth noting that a 100bps horizontal shift in the risk free yield curve as at 30 June 2012 would have resulted in a 0.7% move (2011: 0.6%) in the interest rate sensitive liability relative to assets. Similar to the annuity portfolio, the liability for permanent health insurance (PHI) payments to disabled employees of insured group schemes is matched by fixed and index linked bonds to protect against interest rate movements.

The calculation for Momentum is based on the risk free yield curve. The average rate that produces the same result is 7.8% (2011: 8.8%).

Guaranteed endowments and structured products

The company issues guaranteed endowment policies – the majority of these contracts are five year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The 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 hedged through equity linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reputable reinsurers in terms of the company's reinsurance policies.

To demonstrate the interest rate hedging on guaranteed and structured endowments for the company, it was calculated that, at 30 June 2012, a 100bps horizontal shift in the yield curve would have resulted in a 0.5% move (2011: 0.2%) in liabilities relative to assets.

Individual life risk products

These policies mainly represent whole life and term assurance contracts, that provide lump sum benefits on death and disability. The present value of the future fees (included in the premium rates) expected to be earned on this business is capitalised and offset against the liabilities. A long term interest rate is used to calculate the present value of the future fees. Any changes in long term interest rates would therefore result in a change in the value of the negative rand reserves.

Other non profit business

In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The company reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed interest investments.

47.1 Price risk

Price risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in market prices.

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

The 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 47.5.

47.2 Interest rate risk

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

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. 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
2012	**Rm**	**Rm**	**Rm**	**Rm**	**%**
Designated at fair value through income					
Debt securities	50,150	13,828	36,240	82	**7.1**
Funds on deposit and other money market instruments	5,434	4,959	475	-	**5.9**
Available-for-sale					
Debt securities	2,843	2,649	194	-	**6.0**
Cash and cash equivalents	8,068	7,253	383	432	**5.0**
Loans and receivables	4,717	643	-	4,074	**10.0**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	699	-	-	699	-
	71,911	**29,332**	**37,292**	**5,287**	
Restated					
2011	Rm	Rm	Rm	Rm	%
Designated at fair value through income					
Debt securities	47,816	20,061	27,312	443	7.1
Funds on deposit and other money market instruments	6,324	4,444	508	1,372	5.9
Available-for-sale					
Debt securities	4,452	4,171	281	-	6.7
Cash and cash equivalents	10,290	10,290	-	-	5.0
Loans and receivables	4,726	652	-	4,074	10.0
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	477	-	-	477	-
	74,085	39,618	28,101	6,366	

Liability exposure to interest rates is reflected in notes 19 and 20. Derivative instrument exposure to interest rates is reflected in note 7.3.

2011 reclassification

The company included available-for-sale debt securities of R2 133 million in cash flow interest rate risk as a result of the reclassification of preference share investments previously included in equity securities to debt securities - refer note 7.4.

The company reallocated available-for-sale debt securities of R2 038 million previously included in fair value interest rate risk to cash flow interest rate risk on reassessment of the characteristics of the instruments.

47.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial instruments and liabilities will fluctuate due to changes in foreign exchange rates.

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 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:

2012	Africa	UK£	US $	Euro	Asian Pacific	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Closing exchange rate		*12.8826*	*8.2670*	*10.4012*			
Investment securities							
Designated at fair value through income							
Equity securities	-	63	128	372	-	29	592
Debt securities	5	22	724	2		5	758
Funds on deposit and other money market instruments	-	-	-	-	-	-	-
Unit-linked investments	-	469	139	301	8	68	985
Interest in subsidiaries	-	-	9 618	-	-	-	9 618
Interest in associates	-	49	3 345	122	-	-	3 516
Cash and cash equivalents	-	45	169	25	1	1	241
Other financial assets	-	-	-	-	-	-	-
	5	648	14 123	822	9	103	15 710
Other financial liabilities	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

2011	Africa	UK£	US $	Euro	Asian Pacific	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Closing exchange rate		*10.8380*	*6.7731*	*9.7993*			
Investment securities							
Designated at fair value through income							
Equity securities	-	319	141	15	-	28	503
Debt securities	5	17	-	-	-	-	22
Funds on deposit and other money market instruments	-	675	-	-	-	-	675
Unit-linked investments	-	2 565	2 121	5 977	-	209	10 873
Interest in subsidiaries	-	2 894	858	1 857	-	-	5 609
Interest in associates	-	264	78	169	-	-	511
Cash and cash equivalents	-	23	73	2	-	-	98
Other financial assets	-	-	-	2	-	-	2
	5	6 757	3 271	8 023	-	237	18 293
Other financial liabilities	-	19	-	-	-	-	19
	-	19	-	-	-	-	19

African exchange rates representing material balances above are:

Closing exchange rate	**Botswana**	**Ghana**	**Kenya**	**Nigeria**
2012	**1.0727**	**4.2544**	**0.0981**	**0.0507**
2011	1.0363	4.4976	0.0744	0.0444

47.4 Property risk

Property risk is the risk that the value of investment and owner-occupied properties, 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:

	2012	2011
	Rm	Rm
Investment properties	**439**	379
Owner-occupied properties	**646**	623
Collective investment schemes > 55% property exposure (Refer note 42.1)	**1 010**	870
	2 095	1 872
% of total assets	1.0%	1.0%

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

The company is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2012. There was no unlet or vacant investment property as at 30 June 2012 or as at 30 June 2011.

47.5 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 18 for sensitivities around insurance risk. The table below provides the sensitivity to a change in equity prices by 10% and a change to interest rates by 100 basis points.

	Equity prices		Interest rates	
	Increase by 10 %	Decrease by 10 %	Increase by 100 bps	Decrease by 100 bps
2012	**Rm**	**Rm**	**Rm**	**Rm**
Increase/(decrease) in earnings	79	(68)	27	(22)
Increase/(decrease) in equity	99	(92)	17	(13)
2011				
Increase/(decrease) in earnings	117	(118)	5	(4)
Increase/(decrease) in equity	442	(490)	(156)	119

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a twelve month period from the reporting date.
- 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 change in the equity price and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year then ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable, but no changes are made to the prospective assumptions used in the measurement of contract holder liabilities.
- In line with Momentum's current practice, the profits from insurance contracts were stabilised. This is particularly relevant for asset price movements away from the long term average, provided that the investment stabilisation account has a positive balance.
- The change in equity prices was assumed to be a once-off change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Derivative and other structures on shareholder assets are used to negate equity risk. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

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

Currency sensitivity

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

48 Credit risk

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 company in respect of shareholders. The Executive BSM Charter forms part of the overall ERM Framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the Executive BSM, executive management and the credit risk management function. The Policyholder Investment Committee is responsible for setting and monitoring the credit risk sections of mandates for linked policyholder portfolios.

Credit risk governance

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 42.1 for unit linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets.

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 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.

The company monitors collateral levels on a daily basis and the status of collateral coverage is reported to the executive balance sheet management committee on a quarterly basis. This collateral serves as security for the scrip lending arrangements in the event of default by the borrowers.

Loans and receivables

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed-back on a sliding scale within the first two years of origination. As the largest portion of the 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:

	2012 Rm	Restated 2011 Rm
Designated at fair value through income		
Debt securities	**50 150**	47 816
Stock and loans to government and other public bodies	**21 102**	16 198
Other debt instruments	**29 048**	31 618
Funds on deposit and other money market instruments	**5 434**	6 324
Unit-linked investments (categorised as interest bearing and money market - refer note 42.1)	**16 994**	15 746
Collective investment schemes	**15 736**	15 724
Other unit-linked investments	**1 258**	22
Derivative financial instruments	**2 397**	1 542
Held for trading	**2 347**	1 540
Held for hedging purposes	**50**	2
Available-for-sale		
Debt securities	**2 843**	4 452
Interest in subsidiary companies	**29 855**	26 946
Loans and receivables	**4 717**	4 726
Accounts receivable	**363**	474
Loans	**4 354**	4 252
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**699**	477
Cash and cash equivalents	**8 068**	10 290
Total assets bearing credit risk	**121 157**	118 319

The group classifies equity-linked notes as equity securities. These instruments are exposed to credit default risk depending on the credit worthiness of the issuers which are based on their credit quality, but have not been included in the table above.

2011 reclassification

Refer to note 7.4 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).

The subordinated call notes traded at an average spread of 140 basis points from 1 July 2011 to 30 June 2012. Momentum's credit rating was affirmed on 28 March 2012.

	Carrying value	
	2012	2011
	Rm	Rm
Assets		
Debt securities	**50 150**	47 816
Funds on deposit and other money market instruments	**5 434**	6 324
	55 584	54 140
Liabilities		
Policyholder liabilities under investment contracts	**123 319**	110 769
Subordinated call notes	**1 062**	1 006
Carry positions	**7 441**	5 574
	131 822	117 349

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.

Linked notes

The company has put options with RMB against the linked notes listed and issued by RMB for the guaranteed capital amounts invested for when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments was R1 830 million at 30 June 2012 (2011: R2 011 million).

Available-for-sale

The company has put options against the unlisted preference share investments classified under available-for-sale assets, debt securities. The company can sell these preference shares, including the accrued preference dividends, in full to the respective issuers if an event of default occurs. The fair value of these preference shares at the reporting date is R1 492 million (2011: R2 133 million).

Scrip lending

The table below provides details of the nature and carrying value of the securities lent as well as the collateral held.

Carrying value of scrip lent	**2012**	**2011**
	Rm	**Rm**
Local listed equity securities	1 893	4 821

	Collateral held			**Collateral held**		
	On-balance sheet	**Off-balance sheet**	**Total**	**On-balance sheet**	**Off-balance sheet**	**Total**
			2012			**2011**
	Rm	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Cash and cash equivalents	**108**	**1 921**	**2 029**	2 705	2 413	5 118
Other	**-**	**87**	**87**	-	-	-
	108	**2 008**	**2 116**	2 705	2 413	5 118

Loans

Security held on loans is described in note 8.

Accounts receivable

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 above are analysed in the table below using Fitch ratings, or the equivalent thereof when Fitch ratings are not available.

	AAA	AA	A	BBB	BB	B	Unrated	Total
2012	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Debt securities - Stock and loans to government and other public bodies	10 995	8 941	682	484	-	-	-	21 102
Debt securities - other debt instruments	4 246	21 990	1 616	82	218	199	697	29 048
Cash and cash equivalents and funds on deposit	1 244	10 768	739	-	-	9	742	13 502
Derivative financial instruments	186	2 201	-				10	2 397
Available-for-sale	229	2 010	200	-	-	-	404	2 843
Other unrated instruments								
Interest in subsidiary companies	-	-	-	-	-	-	29 855	29 855
Loans and other receivables	-	-	-	-	-	-	3 995	3 995
Other receivables	-	-	-	-	-	-	699	699
Unit-linked investments	-	-	-	-	-	-	16 994	16 994
Past due or impaired assets	-	-	-	-	-	-	722	722
	16 900	45 910	3 237	566	218	208	54 118	121 157

Restated	AAA	AA	A	BBB	BB	B	Unrated	Total
2011	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Debt securities - Stock and loans to government and other public bodies	13 170	2 978	50					16 198
Debt securities - other debt instruments	(71)	27 160	1 899	1	101	-	2 528	31 618
Cash and cash equivalents and funds on deposit	1 863	13 163	421	58	-	-	1 109	16 614
Derivative financial instruments	117	1 425	-	-	-	-	-	1 542
Available-for-sale	800	3 278	-	-	-	-	374	4 452
Other unrated instruments								
Interest in subsidiary companies	-	-	-	-	-	-	26 946	26 946
Loans and other receivables	-	-	-	-	-	-	4 307	4 307
Other receivables	-	-	-	-	-	-	326	326
Unit-linked investments	-	-	-	-	-	-	15 746	15 746
Past due or impaired assets	-	-	-	-	-	-	570	570
	15 879	48 004	2 370	59	101	-	51 906	118 319

2011 reclassification

Refer to note 7.4 for details of the reclassification.

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 international Fitch credit ratings, or the equivalent thereof when Fitch ratings are not available:

	2012		2011	
Reinsurer	**Reinsured portion - %**	**Credit rating**	Reinsured portion - %	Credit rating
Swiss Re	23%	A+	16%	A+
General Cologne Re	47%	AA+	50%	AA+
Hannover Re	16%	A	32%	A
RGA Re	8%	AA-	1%	AA-
Munich Re	3%	A	0%	A
Other	3%	-	1%	-
	100%		100%	

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

2012	**0 – 90 days Rm**	**90 days - 1 year Rm**	**1 - 5 years Rm**	**> 5 years Rm**	**Total Rm**
Loans and receivables					
Loans	**40**	**193**			**233**
Accounts receivable	**103**	**6**	**-**	**1**	**110**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**227**	**43**	**12**	**-**	**282**
	370	**242**	**12**	**1**	**625**
2011					
Loans and receivables					
Loans	-	-	-	-	-
Accounts receivable	331	-	-	-	331
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	101	37	13	-	151
	432	37	13	-	482

49 Valuation techniques

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (*level 1)*
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (*level 2*); and
- 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 (excludes stock and loans to other public bodies listed on BESA)
- Listed other debt instruments (excludes listed instruments on BESA)
- Listed funds on deposit and other money market instruments > 90 days (excludes listed instruments on BESA)
- 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 and 3. Refer to page 132 and page 136 for details of the instruments split into the different levels.

Class	Valuation techniques and assumptions
Financial assets	
Equity securities	
Listed, local and foreign	External valuations or quoted prices are used where instruments are traded in an inactive market. Management applies judgement in determining whether an adjustment is required to the quoted price. *(level 2)*
Unlisted	Unlisted equity securities mainly consist of delisted shares, private company ordinary shareholdings, equity linked notes as well as preference share holdings. Where external valuations are used, the valuation is based on the net asset values where the assets and liabilities are carried at fair value. *(level 3)* For certain equity-linked notes classified as level 3 instruments, external valuations from third parties are used. Other preference shares classified as level 3 are valued using external valuations received from third parties.
Debt securities	
Stock of and loans to other public bodies	
Listed	Local instruments are listed on BESA and are benchmarked against RSA bonds. The value is determined using a valuation model that uses market inputs (yield of benchmark bond). (*level 2*) Foreign bonds (other public bodies) are valued on a discounted cash flow basis, using a yield that results in the same Z-spread as that of a similar local listed instrument, issued by the same entity. (*level 2*)
Unlisted	The valuation of some unlisted annuities is based on a discounted cash flow basis, valued from a risk free yield curve plus an additional fixed spread to incorporate liquidity and credit risk, ranging between 0.08% and 7.52% (2011: 0.08% and 7.25%). (level 3)

Other debt instruments	
Listed	
- Companion-linked bonds	These instruments are listed on Bond Exchange of South Africa (BESA) and are benchmarked against RSA bonds. The value is determined using a valuation model that uses market inputs. *(level 2)*
- Zero coupon bonds	Zero coupon bonds listed on BESA are valued by using the BESA and ASSA (BEASSA) bond perfect fit zero curve. The curve is generated using the closing levels of the bonds that constitute the GOVI Index. *(level 2)*
	Certain zero coupon bonds are valued by modifying the zero coupon bond curve with an internally determined average issuer spread of 7.19% (2011: 7.89%). *(level 3)*
- Floating rate notes	Listed floating rate notes are securities that resets coupons against a floating benchmark rate (usually on a quarterly basis) and are valued using prices obtained from BESA. Due to the complexity of the valuation of these instruments, they are either valued by BESA or externally by lead underwriters or the debt originators; values are available on request. *(level 2)*
- Credit-linked notes	The values of credit-linked notes are based on an underlying security which could be a share or a bond. Even though some of these are listed on BESA, the valuation generated by BESA is based on receiving quotes from market participants or valuation agents. *(level 2)*
- Inflation-linked bonds	These instruments are valued using published real yield to maturities ranging between -0.7% and 4.5% (2011: 2.0% and 4.42%). *(level 2)*
- Linked notes	External valuations are used, which are based on the net asset value of the investment where the assets and liabilities are carried at fair value. *(level 2)*
Unlisted	
- Annuities	The valuation of the unlisted annuities are based on a discounted cash flow basis, with nominal discount rates ranging between 5.85% to 8.76% (2011: 5.7% and 10.3%) (level 3).
-Preference shares	Preference shares classified as level 2 instruments under available-for-sale financial instruments bears interest at market-related variable rates between 5.76% and 6.54% (2011: 5.76% and 6.53%).
	Other preference shares classified as level 3 are valued using external valuations received from third parties.
- Debentures	Other debentures are valued by discounting future cash flows as per contract, with a market-related bond curve rate adjusted with an internally determined issuer spread. *(level 3)*
- Cash flow streams	The company acquired cash flows from property rental agreements which valuation is based on a discounted cash flow basis, using nominal rates ranging between 5.84% and 9.89% (2011: 5.57% and 10.76%). *(level 3)*
- Syndicated loan facilities	These loans' valuation is based on a discounted cash flow basis, using nominal rates ranging between 6.25% and 8.92% (2011: 5.63% and 10.37%). *(level 3)*
- Local unlisted linked notes	External valuations are used, which are based on the net asset value of the investment where the assets and liabilities are carried at fair value. *(level 3)*
- Local unlisted structured deposits	External valuations are used which are based on a discounted cash flow basis, using bank swap curves. *(level 2)*
- Foreign unlisted credit linked deposits	External valuations are used which are based on a discounted cash flow basis, using bank swap and credit default swap curves. *(level 2)*
Funds on deposit and other money market instruments	
Listed	The valuation of floating rate notes is based on a discounted cash flow basis where market-related yields are obtained from external parties. *(level 2)*
	Short-dated corporate paper is privately placed and trades infrequently. The valuation of these instruments is based on the issue price and does not change until maturity. *(level 2)*
Unlisted	The valuation of fixed deposits is established using the deposit rate from deposit note. *(level 2)*

Unit-linked investments

Collective investments schemes

- Foreign unlisted unquoted	External valuations are used, which are based on the net asset value of the investment where the assets and liabilities are carried at fair value. *(level 2 and level 3).*

Other unit-linked investments

- Unlisted unquoted	Where external valuations are used for investments in private equity funds, the valuation is based on the net asset values where the assets and liabilities are carried at fair value. *(level 3)*
	The valuations of the other investments are based on external confirmation of the market values of the investments. The external valuations are based on the value of the underlying investments that in most cases are listed or quoted instruments. *(level 2)*
	External valuations are used for the valuation of investments in hedge funds. *(level 3)*

Derivative financial instruments (OTC) (level 2)

Equity derivatives

- Options	A portion of the classification relates to the equity upside portion of the structured products. External confirmation of the market values is obtained and used as fair value. Generally, these options are valued using the Black-Scholes model.
	All other OTC equity index options are valued using the Black-Scholes model. Inputs are obtained from market observable data and where prices are obtainable from trading exchanges, the value per the exchange is used.

Interest rate derivatives

- Swaps	The fair value is the net present value of the difference between the fixed and variable portion of the interest rates, as per the terms and conditions of the OTC agreement. Market-related yields applied in the discounted cash flow model are modified by credited coupon spreads.
- Forward rate agreements	Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market-traded instruments. The reset rate is determined in terms of the legal agreement.

Bond derivatives

- Options	External confirmation of the market values is obtained and used as fair value. Generally these options are valued using the Black-Scholes model.
- Swaps	Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market-traded instruments. The reset rate of each swap is determined in terms of legal documents pertaining to the swap.

Currency derivatives

- Swaps	Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market-projected forward value.

Financial liabilities

Carry positions	Carry positions are valued by discounting cash flows using the funding curve and adjusting with the 'spread over yield' to match BESA repo pricing methodology.
Subordinated call notes	The fair value of subordinated call notes is determined using published price quotations in an active market (BESA). The subordinated redeemable debt is listed on BESA and is benchmarked against RSA bonds. The value is determined using a valuation model that uses market inputs (yield of benchmark bond).

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

2012	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	104 796	38 086	7 301	150 183
Equity securities	30 657	1 105	734	32 496
Debt securities	17 807	26 025	6 318	50 150
Funds on deposit and other money market instruments	-	5 434	-	5 434
Unit-linked investments	42 945	5 522	249	48 716
Investments in associates at fair value				
Unit-linked investments	13 387	-	-	13 387
Derivative financial instruments	-	2 397	-	2 397
Held for trading	-	2 347	-	2 347
Held for hedging purposes	-	50	-	50
Available-for-sale	2	2 469	378	2 849
Equity securities	2	-	4	6
Debt securities	-	2 469	374	2 843
Unit-linked investments	-	-	-	-
Interest in subsidiary companies	26 498	-	3 357	29 855
	131 296	**42 952**	**11 036**	**185 284**
Restated				
2011				
Designated at fair value through income	92 995	38 528	9 586	141 109
Equity securities	35 095	517	858	36 470
Debt securities	12 165	28 662	6 989	47 816
Funds on deposit and other money market instruments	1 417	4 100	807	6 324
Unit-linked investments	40 659	5 249	932	46 840
Investments in associates at fair value				
Unit-linked investments	3 659	-	-	3 659
Derivative financial instruments	41	1 501	-	1 542
Held for trading	41	1 499	-	1 540
Held for hedging purposes	-	2	-	2
Available-for-sale	240	4 078	378	4 696
Equity securities	37	-	4	41
Debt securities	-	4 078	374	4 452
Unit-linked investments	203	-	-	203
Interest in subsidiary companies	24 163	-	2 783	26 946
	117 439	**44 107**	**12 747**	**174 293**

2011 reclassification

The company reallocated designated at fair value through income equity securities of R3 198 million, and debt securities of R1 000 million, previously included in level 3 to level 1 and level 2 respectively as unobservable inputs to the valuation of these instruments were reassessed and are not considered to be significant. The company also reallocated designated at fair value through income debt securities of R3 824 million previously included in level 1 to level 2 on reassessment of the market inputs to the valuation of these instruments.

Included in level 1 in 2012, is a balance of R3 515 million which was included in level 2 in 2011 (2011: R2 820 million), and included in level 2 in 2012 is a balance of R624 million which was included in level 1 in 2011 (2011: R557 million).

In 2011, there were no transfers from level 1 into level 2 or from level 2 into level 1.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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

	Financial instruments								Total
	Designated at fair value through income					Derivative financial instruments	Available-for-sale		
	Equity securities	Debt securities	Funds on deposit and other money market instruments	Unit-linked investments	Interest in subsidiary companies	Held for trading	Equity securities	Debt securities	
2012	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Opening balance	858	6 989	807	932	2 783	-	4	374	12 747
Transfer from other asset classes	(120)	-	-	120	-	-	-	-	-
Total gains or losses in net realised and fair value gains in the income statement	174	599	-	(126)	371	-	-	-	1 018
Purchases	371	(50)	-	6 441	568	-	-	-	7 330
Sales/settlements – at fair value	(552)	(1 128)	(807)	(6 357)	(365)	-	-	-	(9 209)
Transfers into level 3	31	-	-	50	-	-	-	-	81
Transfers out of level 3	(28)	(92)	-	(811)	-	-	-	-	(931)
Closing balance	734	6 318	-	249	3 357	-	4	374	11 036
Restated	-	-	-	-	-	-	-	-	
2011									
Opening balance	2 056	12 548	240	910	3 634	431	4	-	19 823
Transfer from other asset classes	-	-	(183)	-	-	-	-	-	(183)
Total gains or losses in net realised and fair value gains in the income statement	55	458	(50)	65	(552)	-	-	-	(24)
Purchases	1 993	430	1 251	-	-	-	-	374	4 048
Sales/settlements – at fair value	(3 254)	(3 164)	(451)	(43)	(299)	120	-	-	(7 091)
Transfers into level 3	8	4	-	-	-	-	-	-	12
Transfers out of level 3	-	(3 287)	-	-	-	(551)	-	-	(3 838)
Closing balance	858	6 989	807	932	2 783	-	4	374	12 747

The amount of total gains or losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R1 018 million (2011: R 1 053 million) for the company.

The reason for significant transfers into and out of level 3 in the current year and in the prior year, is as a result of the alignment of Metropolitan's and Momentum's approaches to classification between the three levels following the merger, in December 2010. Financial instruments previously assessed as unlisted securities are assessed as listed quoted financial instruments in the current year, in line with the current approach.

Similarly, in the prior year the unobservable inputs to the valuation techniques of financial instruments transferred out of level 3 have been reviewed in line with the current approach and were considered to be insignificant. In the prior year, significant transfers into level 3 is as a result of unlisted debt securities where unobservable inputs to the valuation were considered to be significant.

2011 reclassification

The company reallocated designated at fair value through income equity securities of R3 198 million and debt securities of R1 000 million (as at 30 June 2011), both previously included in level 3, to level 1 and 2 respectively as unobservable inputs to the valuation of these instruments were reassessed and are not considered to be significant.

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

	Financial instruments								Total
	Designated at fair value through income					Derivative financial instruments	Available-for-sale		
	Equity securities	Debt securities	Funds on deposit and other money market instruments	Unit-linked investments	Interest in subsidiary companies	Held for trading	Equity securities	Debt securities	
2012	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Carrying value	**734**	**6 318**	**-**	**249**	**3 357**	**-**	**4**	**374**	**11 036**
Effect of 10% increase in value	**73**	**632**	**-**	**25**	**336**	**-**	**-**	**37**	**1 103**
Effect of 10% decrease in value	**(73)**	**(632)**	**-**	**(25)**	**(336)**	**-**	**-**	**(37)**	**(1 103)**
Restated 2011									
Carrying value	858	6 989	807	932	2 783	-	4	374	12 747
Effect of 10% increase in value	86	699	81	93	278	-	-	37	1 274
Effect of 10% decrease in value	(86)	(699)	(81)	(93)	(278)	-	-	(37)	(1 274)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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

2012	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	-	122 861	458	123 319
Financial liabilities designated at fair value through income	-	8 503	-	8 503
Subordinated call notes	-	1 062	-	1 062
Carry positions	-	7 441	-	7 441
Derivative financial instruments	-	1 080	-	1 080
Held for trading	-	1 080	-	1 080
	-	**132 444**	**458**	**132 902**
Restated 2011				
Investment contracts designated at fair value through income	-	110 717	52	110 769
Financial liabilities designated at fair value through income	-	7 821	-	7 821
Subordinated call notes	-	1 006	-	1 006
Carry positions	-	6 815	-	6 815
Derivative financial instruments	-	638	-	638
Held for trading	-	638	-	638
	-	119 176	52	119 228

2011 reclassification

The company reallocated carry positions of R5 574 million and subordinated call notes of R1 006 million previously included in level 1 to level 2 on reassessment of the market inputs to the valuation of these instruments.

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

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

	Investment contracts designated at fair value through income		**Derivative financial instruments**	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Opening Balance	**52**	98 740	**-**	256
Total gains or losses in income statement	**375**	8	**-**	(76)
Purchases/issues	**-**	-	**-**	562
Transfers into level 3	**31**	-	**-**	-
Transfers out of level 3	**-**	(98 696)	**-**	(742)
Closing Balance	**458**	52	**-**	-

Any change in the measurement of assets held to match obligations to policyholder investment contracts would result in a similar adjustment to the liabilities in the table above. Consequently, the company's overall profit or loss is not significantly sensitive to the inputs of the models applied to derive fair value.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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

	2012 Carrying value Rm	2012 Fair value Rm	2011 Carrying value Rm	2011 Fair value Rm
Assets				
Loans and receivables	**4 717**	**4 717**	4 726	4 726
Loans	**4 354**	**4 354**	4 252	4 252
Accounts receivable	**363**	**363**	474	474
Cash and cash equivalents	**8 068**	**8 068**	10 290	10 290
	12 785	**12 785**	15 016	15 016

Calculation of fair value

- For accounts receivable and cash and cash equivalents, the carrying value approximates fair value due to their short-term nature.
- Momentum's policy loan values are based on the surrender values.

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

	2012 Carrying value Rm	2012 Fair value Rm	2011 Carrying value Rm	2011 Fair value Rm
Liabilities				
Investment contracts with DPF	10 829	10 829	12 156	12 156
Amortised cost	-	-	77	77
Promissory notes	-	-	77	77
Other payables	4 121	4 121	9 196	9 196
Payables arising from investment contracts	663	663	926	926
Other payables	3 458	3 458	8 270	8 270
	14 950	**14 950**	21 429	21 429

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which is a reasonable approximation to the fair value of this financial liability.
- For other payables, the carrying value approximates fair value due to their short-term nature.

SHAREHOLDER DIARY

Financial year-end	30 June	
Reporting	Annual report published	12-Sep-12
	Annual general meeting	26-Nov-12
Ordinary dividends	**Interim**	
	Declared	6-Mar-12
	Paid	19-Mar-12
	Final	
	Declared	12-Sep-12
	Paid	21-Sep-12

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Auditors

PricewaterhouseCoopers Inc

ANNEXURE A

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

	Carrying value	
	2012	2011
	Rm	Rm
Momentum MF Global Balanced (previously Global Houseview 15%)	**8 282**	4 273
Momentum Balanced Fund (previously RMB Balanced Fund)	**2 173**	1 960
Advantage Focus Equity Fund	**1 500**	2 081
Momentum Multifocus Fund of Funds	**1 273**	1 306
Advantage Money Market Fund	**1 175**	-
Advantage Real Return Core Fund	**1 080**	997
Advantage Ultra Long-Term Value Fund	**1 012**	1 304
Advantage High Growth Fund	**937**	1 273
Advantage Macro Value Fund	**826**	434
Momentum Optimal Yield Fund (previously RMB Absolute Focus Fund)	**803**	831
Advantage Property Equity Fund	**753**	-
Momentum MF International Equity Fund	**688**	680
VPFP CPI Plus 4% Fund of Funds	**618**	532
Advantage Active Bond Fund	**520**	1 185
Momentum Best Blend Balanced Fund of Funds (previously Momentum Aggressive Prudential Fund of Funds and Momentum Balanced Prudential Fund of Funds)	**480**	485
VPFP CPI Plus 2% Fund of Funds	**474**	412
Momentum Inflation Linked Bond Portfolio	**454**	-
Advantage Managed Bond Fund	**448**	688
Advantage Emerging Manager Growth Fund	**422**	-
Advantage Emerging Manager Value Fund	**404**	941
Advantage Macro Growth Fund	**287**	-
Momentum Private Equity Feeder Fund	**283**	233
RMB Private Bank Growth Fund of Funds	**262**	253
VPFP CPI Plus 6% Fund of Funds	**259**	222
Momentum Top 40 Index Fund	**255**	-
Fintax International Balanced Fund USD	**227**	225
Momentum Structured Equity Fund	**146**	-
Stewart Macro Equity Fund of Funds	**101**	-
Momentum International Conservative Feeder Fund	**86**	-
Fintax International Growth Fund USD	**69**	70
Momentum IF Africa Ex South Africa	**68**	60
Momentum Best Blend Stable Fund of Funds (previously Momentum Dynamic Asset Allocator Fund of Funds)	**48**	54

ANNEXURE A
(continued)

Stewart Absolute Return Blend Fund of Funds	**42**	-
Momentum Africa Equity Fund	**17**	-
Momentum Factor 5 Fund of Funds	**14**	-
Advantage Khathalela Short-term Income Fund	**8**	-
Advantage Khathalela Core Equity Fund	**4**	-
MAP hedge funds	**-**	876
Momentum Best Blend Flexible Income Fund (previously Momentum Balanced Income Fund of Funds)	**-**	324
Momentum Best Blend Specialist Equity Fund (previously Momentum Aggressive Equity Fund of Funds)	**-**	109
Momentum Capital Enhancer Fund (previously RMB Moderate Fund)	**-**	107
Momentum Diversified Yield Fund (previously RMB Diversified Yield Fund)	**-**	223
Momentum Global Accumulator Fund of Funds	**-**	1
Momentum Global Builder Fund of Funds	**-**	3
Momentum Institutional Core Equity Fund	**-**	1 586
Momentum International Income Fund (previously RMB Euro Income Fund)	**-**	18
RMB Global Spread Capture Feeder Fund USD	**-**	67
RMB Property Fund	**-**	345
RMB SA Rand Focus Fund	**-**	5
Total investment in CIS subsidiaries	**26 498**	24 163

All the above collective investment schemes are incorporated in South Africa, except for the funds listed below:

Fund name	**Domicile**
Momentum IF Africa Ex South Africa	Luxembourg
Momentum MF Global Balanced (previously Global Houseview 15%)	Luxembourg
Momentum MF International Equity Fund	Luxembourg
Momentum Private Equity Feeder Fund	Luxembourg
Fintax International Balanced Fund USD	Guernsey
Fintax International Growth Fund USD	Guernsey
RMB Global Spread Capture Feeder Fund USD	Guernsey

ANNEXURE B

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

	Carrying value 2012 Rm	Carrying value 2011 Rm
SICAV Funds	**2 941**	441
Momentum Money Market Fund (previously RMB Money Market Unit Trust Fund)	**2 453**	-
Cam Optima Institutional Fund	**750**	-
Momentum Income Plus Fund (previously RMB Income Plus Fund)	**636**	467
ICC Funds	**575**	475
Momentum Equity Fund (previously RMB Equity Fund)	**565**	603
Momentum Property Fund	**413**	-
Cam Universum Institutional Fund	**361**	-
Momentum Best Blend Flexible Income Fund	**357**	-
First Global Saturn Flexible Fund of Funds	**331**	-
Select Manager Prudential Active Fund of Funds	**306**	-
Momentum Conservative Fund (previously RMB Conservative Fund of Funds)	**283**	277
First Global Venus Cautious Fund of Funds	**261**	-
RMB Private Bank Defensive Fund of Funds	**259**	255
Momentum Small/Mid-Cap Fund	**257**	-
Momentum Best Blend Specialist Equity Fund (previously Momentum Moderate Equity Fund of Funds)	**241**	57
Momentum Maximum Income Fund (previously RMB Maximum Income Fund)	**223**	196
Momentum Bond Fund (previously RMB Bond Fund)	**163**	147
Momentum Flexible Fund (previously RMB High Tide Fund)	**135**	126
Momentum Capital Enhancer Fund	**125**	-
Select Manager Flexible Growth Fund of Funds	**125**	-
Select Manager Cautious Managed Fund of Funds	**124**	-
Momentum Value Fund	**111**	-
Platinum Balanced Prudential Fund of Funds	**107**	-
Momentum Top 25 Fund (previously RMB Strategic Opportunities Fund)	**95**	96
Quantum Wealth Conservative Fund of Funds	**86**	-
BJM Multi-Manager Prudential Flexible Equity Fund	**74**	-
Momentum Diversified Yield Fund	**74**	-
Momentum Industrial Fund	**66**	-
Select Manager Global Growth Fund of Funds	**63**	-
RMB Private Bank Global Flexible Fund of Funds	**61**	52
Dotport Stable Prudential Fund of Funds	**58**	-
Momentum International Income Fund (previously RMB International Income Fund and RMB USD Income Fund)	**55**	28

ANNEXURE B
(continued)

Imara Equity Fund	**53**	-
Baroque Moderato Fund of Funds	**44**	-
N-e-FG Flexible Fund	**44**	-
Cannon Flexible Fund	**43**	-
Dotport Dynamic Flexible Fund of Funds	**42**	-
MI-PLAN IP Triathlon Fund	**42**	-
Quantum Capital Plus Fund of Funds	**42**	-
N-e-FG Income Provider Fund of Funds	**41**	-
Select Manager Money Market Fund	**39**	-
Xcede Property Fund	**33**	-
Financial Alliance Inflation Plus 3 Fund of Funds	**30**	-
Xcede Conservative Fund of Funds	**26**	-
Quantum Balanced Fund of Funds	**24**	-
Dotport Cautious Fund of Funds	**22**	-
Grindrod Pacer Fund	**21**	-
N-e-FG Balanced Fund	**19**	-
36One MET Equity Fund	**18**	-
Momentum Factor 7 Fund of Funds (previously Momentum Accumulator Fund of Funds)	**17**	1
BJM Multi-Manager Core Equity Fund	**14**	-
Quantum Worldwide Flexible Fund of Funds	**11**	-
MI-PLAN IP Protected Equity Fund	**9**	-
Marriott First World Equity Feeder Fund	**8**	-
Financial Alliance Flexible Fund of Funds	**6**	-
Momentum Factor 3 Fund of Funds	**3**	-
MET Value Portfolio	**2**	-
Advantage Money Market Fund	**-**	326
Momentum International Equity Feeder Fund (previously RMB Global Fund)	**-**	38
RMB International Balanced Fund of Funds	**-**	34
RMB International Bond Fund	**-**	5
Stewart Macro Equity Fund of Funds	**-**	35
Total investment in CIS associates	**13 387**	3 659

ANNEXURE C

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 Momentum Group Limited's holding company, MMI Holdings Limited, at the following number 012 671 8911.