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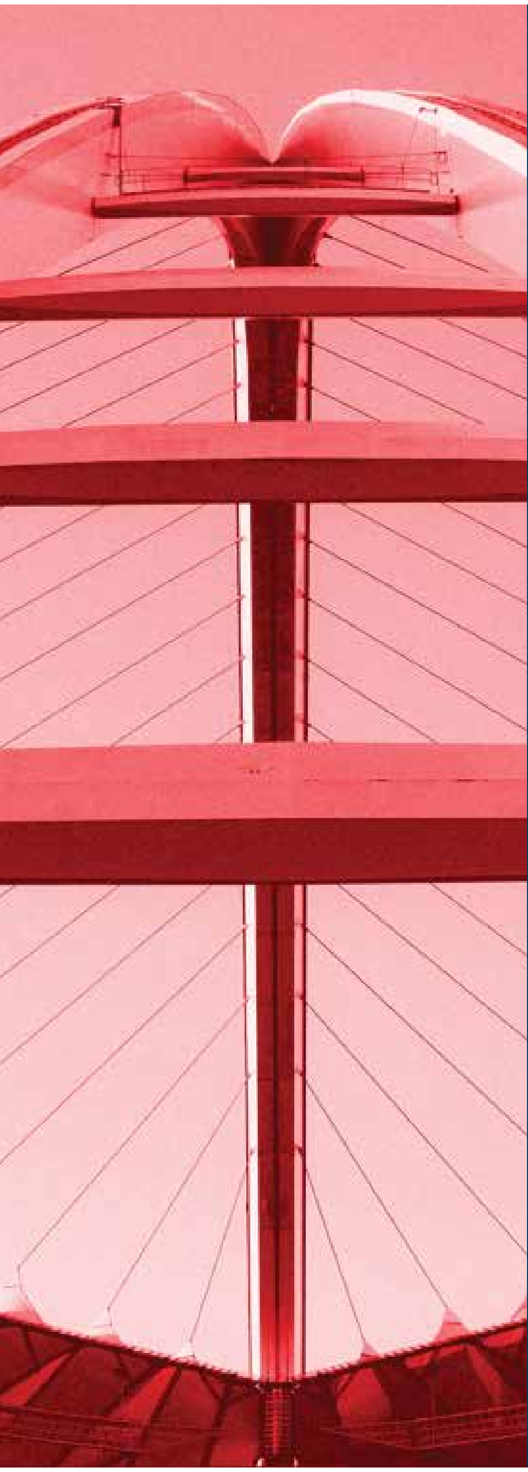

MOMENTUM METROPOLITAN HOLDINGS LTD GROUP ANNUAL FINANCIAL STATEMENTS

30 June 2019

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Contents

Group annual financial statements 30 June 2019

Momentum Metropolitan Holdings Ltd Group

The preparation of the Group's audited consolidated results was supervised by the Group Finance Director, Risto Ketola (FIA, FASSA, CFA).

Directors' responsibility and approval

Responsibility for financial statements

The directors take responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of Momentum Metropolitan Holdings Ltd (MMH or the Company) and its subsidiaries (collectively the Group) at the end of the financial year and the profits and losses for the year. The directors are also responsible for the accuracy and consistency of other information included in the financial statements.

To enable the directors to meet these responsibilities:

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

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

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, the Long-term Insurance Act, 52 of 1998, and the Short-term Insurance Act 2017, (replaced the Short-term Insurance Act, 53 of 1998, as amended, on 1 July 2018) and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of directors and committees of the Board. The independent auditor's report is presented on page 2.

Approval of annual financial statements

The annual financial statements, presented on pages 23 to 260, were approved by the Board of directors on 3 September 2019 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 3 September 2019

Hillie Meyer
Group Chief Executive Officer
Centurion, 3 September 2019

Certificate by the Group Company Secretary

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2019 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.

Gcobisa Tyusha
Group Company Secretary
Centurion, 3 September 2019

Independent auditor's report

To the Shareholders of Momentum Metropolitan Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

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

What we have audited

Momentum Metropolitan Holdings Limited's consolidated and separate financial statements set out on pages 32 to 255 comprise:

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

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

Basis for opinion

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

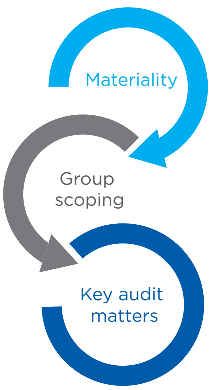
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall group materiality

- R294 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope

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

Key audit matters

- Valuation of insurance contract liabilities
- Impairment of investment in subsidiaries

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

Materiality

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

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

Overall group materiality	R294 million
How we determined it	5% of adjusted consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Group and other companies in this industry is most commonly measured by users. The profit before tax was adjusted for once off items, which include impairment losses, gain on sale of subsidiary as set out in Note 1 and actuarial basis changes as set out in the Segmental Report. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry.

How we tailored our group audit scope

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

The Group is structured along the following eight segmental reporting views, Momentum Life, Metropolitan Retail, Momentum Investments, Momentum Corporate, Momentum Metropolitan Africa, Non-life Insurance, New Initiatives and Shareholders. These group reporting segments operate across 3 different geographical locations – Africa, Europe and Asia. The Group financial statements are a consolidation of various business units. We grouped the business units into the following 3 categories:

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

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

Independent auditor’s report continued

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities (Refer to notes 8.1 and 8.2) *This key audit matter applies to the audit of the consolidated financial statements* Insurance contracts are those under which the Group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder. Management valued insurance contract liabilities in accordance with the Financial Soundness Valuation (FSV) Method and Assumptions basis as set out in the actuarial guidance contained in the Standard of Actuarial Practice (SAP) 104. In valuing these insurance contract liabilities, management considered key economic and non-economic assumptions. Economic assumptions include available market information as at year-end which amongst others, include: • discount rates; • investment returns; and • inflation rates Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgement. These include future expected claims experience for items such as: • mortality; • morbidity; and • lapses. We considered the valuation of policyholder liabilities arising from insurance contracts to be a matter of most significance to our current year audit because of the significant judgements and assumptions (both economic and non-economic) applied by management in the valuation of policyholder liabilities.	We made use of our actuarial and data expertise to test the output from management’s actuarial valuation process which considers the following: • data inputs; • assumptions applied; and • results of the analysis of surplus (AOS) and liability build up. **The following audit procedures were performed in order to test the above:** • Understanding the Group’s actuarial control environment and governance such as the functioning of the Group Actuarial Committee. *Data inputs* • We tested the completeness and accuracy of data used by management in the valuations which included: – inspecting the movement reconciliations for key data fields; and – reconciling the policyholder data used in the valuation to the data on the administration systems. We found no material exceptions. *Assumptions applied* • We assessed the reasonableness of assumptions applied by management by comparing them to observable market data or through consideration of experience investigations and historical variances. We found the assumptions used by management to be reasonable. • We challenged and assessed the reasonableness and the accuracy of management’s allocation and split between initial and renewal expenses across the different segments and between product houses through comparison to budgets as well as consideration of historical variances. We found the allocations used by management to be reasonable. *Analysis of surplus and liability build up* • We assessed the reasonableness of management’s explanation of the sources of profits (analysis of surplus) as well as changes in the policyholder liability by considering our understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant Group Actuarial Committee approved changes. We found management’s explanation of the sources of profits and the changes in the policyholder liability to be reasonable.

Key audit matter *continued*	**How our audit addressed the key audit matter** *continued*
Impairment of investment in subsidiaries (Refer to note 2 of the Company financial statements, and Annexure D) *This key audit matter applies to the audit of separate financial statements* Management recognised impairments for investments in the following subsidiaries: • Metropolitan Collective Investments (Pty) Limited; • Momentum Metropolitan Infrastructure and Operations (Pty) Limited; and • Momentum Trust Limited. Management compared the carrying amount of the investment in subsidiaries to the recoverable amount, which is determined using the value in use. The value in use of these investments was calculated using a discounted cash flow model ("directors' valuations"). We considered the impairment of the investment in these subsidiaries to be a matter of most significance in our current year audit because of the judgement and estimates involved in the determination of the value in use.	We obtained an understanding of the methodology applied by management in performing their impairment test of the investment in subsidiaries and we found the approach adopted by management in the valuation model to be consistent with market practice and the applicable requirements of IAS 36: Impairment of Assets. For the directors' valuations, in relation to the impairment recognised, we performed the following audit procedures: • we made use of our valuations expertise to assess the reasonableness of the discount rate with reference to market data, industry norms and our knowledge of the business. We found the discount rate used to be reasonable; • we agreed the cash flows used in the directors' valuations to the approved budgets for each subsidiary. We compared these cash flows to actual historical performance and found the cash flows to be reasonable; • we tested the mathematical accuracy of the directors' valuations. No material differences were noted; and • we performed an independent sensitivity analysis on the forecast cash flows and the discount rate. We concurred with management's conclusions on the impairment recognised for the subsidiaries.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Momentum Metropolitan Holdings Ltd Group Annual Financial Statements 30 June 2019", which includes the Directors' Report, the Report of the Audit Committee and the Certificate by the Group Company Secretary as required by the Companies Act of South Africa, and the document titled "Momentum Metropolitan Holdings Limited Integrated Report 2019". The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Independent auditor's report continued

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor

Waterfall, 3 September 2019

Report on the review of the report on group embedded value

Of Momentum Metropolitan Holdings Limited and its subsidiaries to the directors of Momentum Metropolitan Holdings Limited

Introduction

We have reviewed the report on group embedded value of Momentum Metropolitan Holdings Ltd and its subsidiaries (the "group") for the year ended 30 June 2019, as set out on pages 7 to 22 (the "Report"). The Report is prepared for the purpose of setting out the embedded value of the Group for the year ended 30 June 2019. The directors of Momentum Metropolitan Holdings Ltd are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out on page 7 to the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out on page 7 to the Report.

Basis of accounting and restriction on use

Without modifying our conclusion, we draw attention to page 7 to the Report, which describes the basis of accounting. The Report is prepared for setting out the embedded value of the Group for the year ended 30 June 2019. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of Momentum Metropolitan Holdings Ltd and should not be used by any other parties. We agree to the publication of our report in the annual financial statements of Momentum Metropolitan Holdings Limited Group provided it is clearly understood by the recipients of the Momentum Metropolitan Holdings Limited Group annual financial statements that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor

Waterfall, 3 September 2019

Report on group embedded value

At 30 June 2019

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

Momentum Metropolitan Life Ltd required capital

The new regulatory framework, as defined in the South African Insurance Act, 18 of 2017, became effective on 1 July 2018. This meant that the previous Statutory Valuation Method (SVM) was no longer recognised as a valid basis for regulatory liabilities. The Group's covered businesses elected to adopt the IFRS liabilities as reference for determining the value of in-force business for embedded value purposes. This has resulted in a reallocation of value between the adjusted net worth and value of in-force due to the liability difference between the previous statutory and IFRS liabilities.

Momentum Metropolitan Life Ltd (MML) required capital is derived as the total restricted assets less the IFRS liabilities as per the new required capital methodology. Restricted assets were defined in terms of the new regulatory balance sheet as the assets allocated to support the policyholder liabilities and internal capital requirements.

Other covered business

A multiple of regulatory capital requirements applicable to those entities has been used.

Assets backing required capital

The assumed composition of the assets backing the required capital has been determined with reference to the shareholder fund mandate.

Report on group embedded value continued

At 30 June 2019

Embedded value results	2019 Rm	Restated 2018 Rm
Covered business		
Equity attributable to owners of the parent	**23 020**	22 328
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(2 748)**	(3 170)
Difference between statutory and published valuation methods[1]	**–**	(1 574)
Net assets – non-covered business within life insurance companies	**(5 011)**	(2 269)
Net assets – non-covered business outside life insurance companies	**(2 914)**	(3 430)
Dilutory effect of subsidiaries[2]	**(89)**	(52)
Value of Momentum Metropolitan Life Ltd preference shares issued	**(500)**	(500)
Diluted adjusted net worth – covered business	**11 758**	11 333
Net value of in-force business	**21 776**	22 133
Diluted embedded value – covered business	**33 534**	33 466
Non-covered business		
Net assets – non-covered business within life insurance companies	**5 011**	2 269
Net assets – non-covered business outside life insurance companies	**2 914**	3 430
Consolidation adjustments[3]	**(1 032)**	(1 291)
Adjustments for dilution[4]	**639**	660
Diluted adjusted net worth – non-covered business	**7 532**	5 068
Write-up to directors' value	**127**	1 067
Non-covered business	**2 370**	2 880
Holding company expenses[5]	**(1 413)**	(1 232)
International holding company expenses[5]	**(830)**	(581)
Diluted embedded value – non-covered business	**7 659**	6 135
Diluted adjusted net worth	**19 290**	16 401
Net value of in-force business	**21 776**	22 133
Write-up to directors' value	**127**	1 067
Diluted embedded value	**41 193**	39 601
Required capital – covered business (adjusted for qualifying debt)[6]	**2 874**	5 699
Free surplus – covered business	**8 884**	5 634
Diluted embedded value per share (cents)	**2 748**	2 543
Diluted adjusted net worth per share (cents)	**1 287**	1 053
Diluted number of shares in issue (million)[7]	**1 499**	1 557

1 The new regulatory framework, as defined in the South African Insurance Act, 18 of 2017, became effective on 1 July 2018. This meant that the previous Statutory Valuation Method was no longer recognised as a valid basis for regulatory liabilities. The Group's covered businesses elected to adopt the IFRS liabilities as reference for determining the value of in-force business for embedded value purposes. The difference between the statutory and published valuation method is no longer applicable to the embedded value statement from 1 July 2018, but remain applicable to prior reporting periods.

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

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

4 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 2): R125 million (2018: R114 million)
- Treasury shares held on behalf of contract holders: R260 million (2018: R292 million)
- Liability – Momentum Metropolitan Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R254 million (2018: R254 million)

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

6 The required capital for in-force covered business amounts to R7 305 million (2018: R10 073 million) and is adjusted for qualifying debt of R4 431 million (2018: R4 374 million). With the new required capital methodology, that coincided with the implementation of the new regulatory framework as of 1 July 2018, Momentum Metropolitan Life Ltd has adopted a target range for solvency cover of 1.7 to 2.1 times the SCR. This makes allowance for the capital required to support the covered business as well as the wider strategic deployments of the Group. The required capital allocated to the South African in-force covered business represents the IFRS shareholder assets required to provide resilience against a range of severe but plausible scenarios, based on stress testing of the new regulatory balance sheet. For the international covered business, required capital is determined as a multiple of the statutory capital adequacy requirements.

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

Analysis of net value of in-force business[1]	2019 Rm	Restated 2018 Rm
Momentum Life	**9 530**	9 834
Gross value of in-force business	**10 383**	11 182
Less: cost of required capital	**(853)**	(1 348)
Momentum Investments[2]	**1 455**	1 948
Gross value of in-force business	**1 789**	2 111
Less: cost of required capital	**(334)**	(163)
Metropolitan Retail	**4 620**	4 023
Gross value of in-force business	**4 822**	4 659
Less: cost of required capital	**(202)**	(636)
Momentum Corporate	**4 059**	4 250
Gross value of in-force business	**5 053**	5 183
Less: cost of required capital	**(994)**	(933)
Momentum Metropolitan Africa	**2 112**	2 078
Gross value of in-force business	**2 413**	2 366
Less: cost of required capital	**(301)**	(288)
Net value of in-force business	**21 776**	22 133

1 With the adoption of the new regulatory framework for South African insurers, the Group's covered businesses elected to adopt the IFRS liabilities as reference for determining the value of in-force business for embedded value purposes. For purposes of determining the cost of required capital, total restricted assets were defined in terms of the new regulatory balance sheet by referencing the regulatory technical provisions and SCR. Required capital is derived as the total restricted assets less the IFRS liabilities.
2 Prior period has been restated to include Wealth business in the Momentum Investments segment.

Embedded value detail	Adjusted net worth[4] Rm	Net value of in-force Rm	2019 Rm	Restated 2018 Rm
Covered business				
Momentum Life	**1 606**	**9 530**	**11 136**	13 480
Momentum Investments[1, 2]	**1 204**	**1 455**	**2 659**	2 888
Metropolitan Retail	**748**	**4 620**	**5 368**	6 175
Momentum Corporate	**2 929**	**4 059**	**6 988**	6 730
Momentum Metropolitan Africa	**2 441**	**2 112**	**4 553**	3 833
Shareholders	**2 830**	**–**	**2 830**	360
Other	**(1 601)**	**–**	**(1 601)**	(4 014)
Qualifying debt	**4 431**	**–**	**4 431**	4 374
Total covered business	**11 758**	**21 776**	**33 534**	33 466

1 Prior period has been restated to reflect the transfer of Wealth to covered business.
2 Included in covered business is Wealth business not deemed to be long-term insurance business with an adjusted net worth of R485 million (2018: R582 million) and value of in-force of R194 million (2018: R229 million).

Report on group embedded value continued

At 30 June 2019

Embedded value detail *continued*	Adjusted net worth[4] Rm	Write-up to directors' value Rm	2019 Rm	Restated 2018 Rm
Non-covered business				
Momentum Life	487	(1 045)	(558)	(426)
Multiply	471	(1 045)	(574)	(376)
Other	16	–	16	(50)
Momentum Investments	1 068	1 010	2 078	1 744
Investment and savings[1]	839	1 000	1 839	1 726
Other	229	10	239	18
Momentum Corporate	698	489	1 187	1 572
Health	655	489	1 144	1 595
Other	43	–	43	(23)
Non-life Insurance	2 853	1 300	4 153	3 553
Non-life insurance	810	(382)	428	470
Cell captives	2 043	1 682	3 725	3 083
Momentum Metropolitan Africa	884	(616)	268	(530)
Life insurance	348	(125)	223	204
Health	252	341	593	358
Non-life insurance	100	(50)	50	102
Other	184	48	232	(613)
International holding company expenses[3]	–	(830)	(830)	(581)
New Initiatives	612	402	1 014	577
New initiatives India	458	343	801	453
New initiatives aYo	84	59	143	77
Other	70	–	70	47
Shareholders	930	(1 413)	(483)	(355)
Other	930	–	930	877
Holding company expenses[3]	–	(1 413)	(1 413)	(1 232)
Total non-covered business	7 532	127	7 659	6 135
Total embedded value	19 290	21 903	41 193	39 601

1 Prior period has been restated to reflect the transfer of Wealth to covered business.
2 Included in covered business is Wealth business not deemed to be long-term insurance business with an adjusted net worth of R485 million (2018: R582 million) and value of in-force of R194 million (2018: R229 million).
3 The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses. The holding company expenses reflect the present value of projected recurring head office expenses.
4 The treatment of intercompany loans has been changed to align with capital management practices, i.e. loans need to be carried by the units that utilise the funding.

Analysis of changes in group embedded value	Notes	Covered business Adjusted net worth (ANW) Rm	Gross value of in-force (VIF) Rm	Cost of required capital Rm	12 mths to 30.06.2019 Total EV Rm	Restated 12 mths to 30.06.2018 Total EV Rm
Profit from new business		(1 086)	1 960	(263)	611	433
Embedded value from new business	A	(1 086)	1 890	(263)	541	345
Expected return to end of period	B	–	70	–	70	88
Profit from existing business		3 557	(1 162)	77	2 472	1 102
Expected return – unwinding of RDR	B	–	2 470	(281)	2 189	2 198
Release from the cost of required capital	C	–	–	340	340	452
Expected (or actual) net of tax profit transfer to net worth	D	3 384	(3 384)	–	–	–
Operating experience variances	E	386	31	–	417	(181)
Development expenses	F	(32)	–	–	(32)	(51)
Operating assumption changes	G	(181)	(279)	18	(442)	(1 316)
Embedded value profit/(loss) from operations		2 471	798	(186)	3 083	1 535
Investment return on adjusted net worth	H	464	–	–	464	695
Investment variances	I	50	(540)	39	(451)	(82)
Economic assumption changes	J	77	106	87	270	28
Exchange rate movements	K	5	4	(1)	8	21
Impact of change in required capital methodology	L	1 534	(1 409)	745	870	–
Embedded value profit/(loss) – covered business		4 601	(1 041)	684	4 244	2 197
Transfer of business to non-covered business	M	–	–	–	–	(59)
Other capital transfers	N	(2 589)	–	–	(2 589)	(455)
Dividend (paid)/received		(1 587)	–	–	(1 587)	(3 194)
Change in embedded value – covered business		425	(1 041)	684	68	(1 511)
Non-covered business						
Change in directors' valuation and other items					(646)	(1 750)
Change in holding company expenses					(430)	(916)
Embedded value loss – non-covered business					(1 076)	(2 666)
Transfer of business from covered business	M				–	59
Other capital transfers	N				2 589	455
Dividend received/(paid)					1 079	1 752
Shares repurchased					(1 031)	(974)
Finance costs – preference shares					(37)	(37)
Change in embedded value – non-covered business					1 524	(1 411)
Total change in group embedded value					1 592	(2 922)
Total embedded value profit/(loss)					3 168	(469)
Return on embedded value (%) – internal rate of return					8.0	(1.1)
Return on embedded value excluding Impact of change in required capital methodology (%) – internal rate of return					5.8	(1.1)

Report on group embedded value continued

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Analysis of changes in group embedded value *continued*	Adjusted net worth (ANW) Rm	Gross value of in-force (VIF) Rm	Cost of required capital Rm	12 mths to 30.06.2019 Total EV Rm	Restated 12 mths to 30.06.2018 Total EV Rm
Momentum Life					
Embedded value from new business	(291)	483	(91)	**101**	66
Expected return – unwinding of RDR	–	967	(92)	**875**	897
Release from the cost of required capital	–	–	96	**96**	198
Expected (or actual) net of tax profit transfer to net worth	1 167	(1 167)	–	**–**	–
Operating experience variances	215	108	–	**323**	78
Development expenses	(19)	–	–	**(19)**	(17)
Operating assumption changes	(122)	15	93	**(14)**	(137)
Embedded value profit/(loss) from operations	950	406	6	**1 362**	1 085
Investment return on adjusted net worth	87	–	–	**87**	203
Investment variances	(3)	(369)	(12)	**(384)**	(132)
Economic assumption changes	26	208	7	**241**	24
Impact of change in required capital methodology	1 167	(1 045)	496	**618**	–
Embedded value profit/(loss) – covered business	2 227	(800)	497	**1 924**	1 180
Momentum Investments					
Embedded value from new business	(170)	271	(19)	**82**	76
Expected return – unwinding of RDR	–	191	(22)	**169**	270
Release from the cost of required capital	–	–	43	**43**	26
Expected (or actual) net of tax profit transfer to net worth	489	(489)	–	**–**	–
Operating experience variances	63	(33)	–	**30**	(96)
Development expenses	(6)	–	–	**(6)**	(3)
Operating assumption changes	–	(84)	(23)	**(107)**	(1 270)
Embedded value profit/(loss) from operations	376	(144)	(21)	**211**	(997)
Investment return on adjusted net worth	49	–	–	**49**	84
Investment variances	(41)	(128)	18	**(151)**	7
Economic assumption changes	–	(22)	(5)	**(27)**	8
Impact of change in required capital methodology	11	(27)	(165)	**(181)**	–
Embedded value profit/(loss) – covered business	395	(321)	(173)	**(99)**	(898)
Metropolitan Retail					
Embedded value from new business	(261)	399	(49)	**89**	84
Expected return – unwinding of RDR	–	462	(24)	**438**	372
Release from the cost of required capital	–	–	60	**60**	102
Expected (or actual) net of tax profit transfer to net worth	851	(851)	–	**–**	–
Operating experience variances	27	15	–	**42**	(33)
Development expenses	(4)	–	–	**(4)**	(24)
Operating assumption changes	(55)	7	14	**(34)**	(273)
Embedded value profit/(loss) from operations	558	32	1	**591**	228
Investment return on adjusted net worth	54	–	–	**54**	115
Investment variances	7	28	–	**35**	135
Economic assumption changes	52	119	46	**217**	76
Impact of change in required capital methodology	16	(16)	387	**387**	–
Embedded value profit/(loss) – covered business	687	163	434	**1 284**	554

Analysis of changes in group embedded value *continued*	Adjusted net worth (ANW) Rm	Gross value of in-force (VIF) Rm	Cost of required capital Rm	12 mths to 30.06.2019 Total EV Rm	Restated 12 mths to 30.06.2018 Total EV Rm
Momentum Corporate					
Embedded value from new business	(157)	506	(84)	**265**	124
Expected return – unwinding of RDR	–	643	(110)	**533**	474
Release from the cost of required capital	–	–	141	**141**	126
Expected (or actual) net of tax profit transfer to net worth	538	(538)	–	**–**	–
Operating experience variances	76	7	–	**83**	(34)
Development expenses	(3)	–	–	**(3)**	(7)
Operating assumption changes	(25)	(499)	(87)	**(611)**	614
Embedded value profit/(loss) from operations	429	119	(140)	**408**	1 297
Investment return on adjusted net worth	132	–	–	**132**	127
Investment variances	47	(39)	33	**41**	(57)
Economic assumption changes	–	(211)	–	**(211)**	(103)
Impact of change in required capital methodology	–	–	46	**46**	–
Embedded value profit/(loss) – covered business	608	(131)	(61)	**416**	1 264
Momentum Metropolitan Africa					
Embedded value from new business	(207)	231	(20)	**4**	(5)
Expected return – unwinding of RDR	–	277	(33)	**244**	273
Expected (or actual) net of tax profit transfer to net worth	339	(339)	–	**–**	–
Operating experience variances	88	(66)	–	**22**	10
Operating assumption changes	21	282	21	**324**	(250)
Embedded value profit/(loss) from operations	241	385	(32)	**594**	28
Investment return on adjusted net worth	114	–	–	**114**	112
Investment variances	40	(32)	–	**8**	(35)
Economic assumption changes	(1)	12	39	**50**	23
Exchange rate movements	5	4	(1)	**8**	21
Impact of change in required capital methodology	340	(321)	(19)	**–**	–
Embedded value profit/(loss) – covered business	739	48	(13)	**774**	149
Shareholders					
Operating experience variances	(83)	–	–	**(83)**	(106)
Embedded value profit/(loss) from operations	(83)	–	–	**(83)**	(106)
Investment return on adjusted net worth	28	–	–	**28**	54
Embedded value profit/(loss) – covered business	(55)	–	–	**(55)**	(52)

A. Value of new business (VNB)

Value of new business[1,2] 12 mths to 30.06.2019	Momentum Life Rm	Momentum Investments[3,4] Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm
Value of new business	101	82	89	265	4	541
Gross	192	101	138	349	24	804
Less: cost of required capital	(91)	(19)	(49)	(84)	(20)	(263)
New business premiums	3 047	22 620	2 381	9 082	1 005	38 135
Recurring premiums	1 031	186	1 196	1 149	390	3 952
Protection	511	–	757	427	128	1 823
Long-term savings	520	184	436	551	262	1 953
Annuities and structured products	–	2	3	171	–	176
Single premiums	2 016	22 434	1 185	7 933	615	34 183
Protection	–	–	–	4	172	176
Long-term savings	2 016	19 197	488	7 513	212	29 426
Annuities and structured products	–	3 237	697	416	231	4 581
New business premiums (APE)	1 233	2 430	1 315	1 942	451	7 371
Protection	511	–	757	427	145	1 840
Long-term savings	722	2 104	485	1 302	283	4 896
Annuities and structured products	–	326	73	213	23	635
New business premiums (PVP)	8 266	23 145	4 897	16 977	2 498	55 783
Profitability of new business as a percentage of APE	8.2	3.4	6.8	13.6	0.9	7.3
Profitability of new business as a percentage of PVP	1.2	0.4	1.8	1.6	0.2	1.0

1 Value of new business and new business premiums are net of non-controlling interests.
2 The value of new business has been calculated using point of sale demographic and economic assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business; for other business the investment yields at 31 December 2018 have been assumed to be representative of the economic assumptions at point of sale. The Group does not allow for marginal diversification benefits to be allocated to the value of new business for purposes of deriving the cost of required capital..
3 Prior period has been restated to include Wealth that was transferred to covered business.
4 Included in covered business is Wealth business not deemed to be long-term insurance business with value of new business of R24 million (2018: R39 million).

A. Value of new business (VNB) *continued*

Value of new business[1,2] Restated 12 mths to 30.06.2018	Momentum Life Rm	Momentum Investments[3,4] Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm
Value of new business	66	76	84	124	(5)	345
Gross	120	105	134	160	15	534
Less: cost of required capital	(54)	(29)	(50)	(36)	(20)	(189)
New business premiums	2 963	22 650	2 618	4 319	861	33 411
Recurring premiums	995	206	1 249	806	429	3 685
Protection	517	–	816	271	114	1 718
Long-term savings	478	205	429	533	315	1 960
Annuities and structured products	–	1	4	2	–	7
Single premiums	1 968	22 444	1 369	3 513	432	29 726
Protection	–	–	–	10	244	254
Long-term savings	1 968	19 955	631	3 482	152	26 188
Annuities and structured products	–	2 489	738	21	36	3 284
New business premiums (APE)	1 192	2 451	1 386	1 157	472	6 658
Protection	517	–	816	272	138	1 743
Long-term savings	675	2 201	492	881	330	4 579
Annuities and structured products	–	250	78	4	4	336
New business premiums (PVP)	8 089	23 267	5 091	11 218	2 337	50 002
Profitability of new business as a percentage of APE	5.5	3.1	6.1	10.7	(1.1)	5.2
Profitability of new business as a percentage of PVP	0.8	0.3	1.6	1.1	(0.2)	0.7

1 Value of new business and new business premiums are net of non-controlling interests.
2 The value of new business has been calculated using point of sale demographic and economic assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business; for other business the investment yields at 31 December 2018 have been assumed to be representative of the economic assumptions at point of sale. The Group does not allow for marginal diversification benefits to be allocated to the value of new business for purposes of deriving the cost of required capital..
3 Prior period has been restated to include Wealth that was transferred to covered business.
4 Included in covered business is Wealth business not deemed to be long-term insurance business with value of new business of R24 million (2018: R39 million).

Report on group embedded value continued

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A. Value of new business (VNB) *continued*

In determining the VNB for retail and traditional corporate business:

- A policy is only taken into account for new business if at least one premium, that has not subsequently been refunded, is recognised in the financial statements.
- Premium increases that have been allowed for in the value of in-force covered business are not included as new business at inception.
- The expected value of future premium increases, resulting from premium indexation on the new recurring premium business written during the financial year under review, is included in the VNB.
- Only client-initiated continuations of individual policies and deferrals of retirement annuity policies after the maturity dates of contracts not previously expected in the present valuation of in-force business, are allowed for.
- For Momentum Life and Momentum Investments business, new business exclude negative alterations after the commission clawback period.
- For employee benefit business, increases in business from new schemes or new benefits on existing schemes are included as new business, but new members or salary-related increases under existing schemes are allowed for in the value of in-force covered business.
- Renewable recurring premiums under existing group insurance contracts are treated as in-force covered business.

Reconciliation of lump sum inflows	12 mths to 30.06.2019 Rm	Restated 12 mths to 30.06.2018 Rm
Total lump sum inflows	**33 071**	26 909
Inflows not included in value of new business	**(7 303)**	(6 612)
Wealth off-balance sheet business	**6 703**	7 700
Term extensions on maturing policies	**444**	438
Automatically Continued Policies	**1 303**	1 318
Non-controlling interests and other adjustments	**(35)**	(27)
Single premiums included in value of new business	**34 183**	29 726

A. Value of new business (VNB) *continued*

Changes in bases and assumptions

The Group constantly reviews its EV methodologies to align them with evolving practice and to ensure consistency with current practices.

Assumptions

The main assumptions used in the EV calculations are described below.

Principal assumptions (South Africa)[1,2]	2019 %	2018 %
Pre-tax investment return		
Equities	**12.8**	13.0
Properties	**10.3**	10.5
Government stock	**9.3**	9.5
Other fixed-interest stocks	**9.8**	10.0
Cash	**8.3**	8.5
Risk-free return[3]	**9.3**	9.5
Risk discount rate (RDR)	**11.5**	11.8
Investment return (before tax) – balanced portfolio[3]	**11.5**	11.7
Renewal expense inflation rate[4]	**5.8**	6.5

1 The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.
2 The assumptions quoted in the table are representative rates derived at the 10-year point of the yield curves.
3 Risk-free returns are taken from an appropriate market related, risk-free yield curve as at the valuation date. Appropriate risk premia are added to the risk-free yields in order to derive yields on other asset classes. Expected cash flows at each duration are discounted using yields appropriate to that duration. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.
4 For the retail businesses an inflation rate of 6.0% p.a. is used over the planning horizon (three years) where after the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An addition to the expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off. For Momentum Corporate a fixed real return of 2.4% is projected. The 5.8% above represents the 10-year point of the yield curves.

Non-economic

The EV calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation (FSV).

The EV of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The VNB excludes premium increases during the current year resulting from premium indexation arrangements in respect of in-force business, but includes the expected value of future premium increases in respect of new policies written during the current financial year.

B. Expected return

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

C. Release from the cost of required capital

The release from the cost of required capital represents the difference between the risk discount rate and the expected after tax investment return on the assets backing the required capital over the year.

D. Expected (or actual) net of tax profit transfer to net worth

The expected profit transfer for covered business from the present value of in-force to the adjusted net worth is calculated on the IFRS basis.

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E. Operating experience variances

Operating experience variances	Notes	Adjusted net worth Rm	Gross value of in-force Rm	Cost of required capital Rm	12 mths to 30.06.2019 EV Rm	Restated 12 mths to 30.06.2018 EV Rm
Momentum Life		**215**	**108**	**–**	**323**	78
Mortality and morbidity	1	**124**	**28**	**–**	**152**	157
Terminations, premium cessations and policy alterations	2	**102**	**(80)**	**–**	**22**	(33)
Expense variance	3	**5**	**–**	**–**	**5**	(15)
Other	4	**(16)**	**160**	**–**	**144**	(31)
Momentum Investments		**63**	**(33)**	**–**	**30**	(96)
Mortality and morbidity		**(3)**	**–**	**–**	**(3)**	24
Terminations, premium cessations and policy alterations		**15**	**(17)**	**–**	**(2)**	(29)
Expense variance	3	**(17)**	**–**	**–**	**(17)**	(158)
Credit risk variance		**29**	**–**	**–**	**29**	31
Other		**39**	**(16)**	**–**	**23**	36
Metropolitan Retail		**27**	**15**	**–**	**42**	(33)
Mortality and morbidity	1	**83**	**6**	**–**	**89**	98
Terminations, premium cessations and policy alterations	5	**(91)**	**(15)**	**–**	**(106)**	(141)
Expense variance	3	**14**	**–**	**–**	**14**	(18)
Credit risk variance		**25**	**–**	**–**	**25**	17
Other		**(4)**	**24**	**–**	**20**	11
Momentum Corporate		**76**	**7**	**–**	**83**	(34)
Mortality and morbidity	1	**69**	**–**	**–**	**69**	11
Terminations, premium cessations and policy alterations		**(2)**	**7**	**–**	**5**	(59)
Expense variance		**(4)**	**–**	**–**	**(4)**	51
Credit risk variance		**10**	**–**	**–**	**10**	48
Other		**3**	**–**	**–**	**3**	(85)

E. Operating experience variances *continued*

Operating experience variances	Notes	Adjusted net worth Rm	Gross value of in-force Rm	Cost of required capital Rm	12 mths to 30.06.2019 EV Rm	Restated 12 mths to 30.06.2018 EV Rm
Momentum Metropolitan Africa		88	(66)	–	**22**	10
Mortality and morbidity	1	62	4	–	**66**	52
Terminations, premium cessations and policy alterations	6	(13)	(57)	–	**(70)**	(39)
Expense variance		22	–	–	**22**	(4)
Other		17	(13)	–	**4**	1
Shareholders		(83)	–	–	**(83)**	(106)
Total operating experience variances		386	31	–	**417**	(181)

[1] Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.
[2] Positive alteration experience due to better than expected take-up of premium increases were offset to some extent by negative termination experience.
[3] Function of the expense basis changes applied in the previous financial year.
[4] Mainly due to the impact of pricing changes implemented and larger than expected premium discounts.
[5] Continued lapse losses and selective benefit lapsing.
[6] Includes the impact of the loss of a large corporate scheme.

F. Development expenses

Business development expenses within segments.

G. Operating assumption changes

Operating assumption changes	Notes	Adjusted net worth Rm	Gross value of in-force Rm	Cost of required capital Rm	12 mths to 30.06.2019 EV Rm	Restated 12 mths to 30.06.2018 EV Rm
Momentum Life		**(122)**	**15**	**93**	**(14)**	(137)
Mortality and morbidity assumptions	1	**207**	**16**	**–**	**223**	(10)
Termination assumptions	2	**(112)**	**(16)**	**–**	**(128)**	(182)
Renewal expense assumptions		**–**	**1**	**–**	**1**	(256)
Modelling, methodology and other changes	3	**(217)**	**14**	**93**	**(110)**	311

G. Operating assumption changes *continued*

Operating assumption changes	Notes	Adjusted net worth Rm	Gross value of in-force Rm	Cost of required capital Rm	12 mths to 30.06.2019 EV Rm	Restated 12 mths to 30.06.2018 EV Rm
Momentum Investments		**–**	**(84)**	**(23)**	**(107)**	(1 270)
Mortality and morbidity assumptions		–	–	–	–	5
Termination assumptions	4	(1)	(34)	–	(35)	(75)
Renewal expense assumptions		–	–	–	–	(775)
Modelling, methodology and other changes	5	1	(50)	(23)	(72)	(425)
Metropolitan Retail		**(55)**	**7**	**14**	**(34)**	(273)
Mortality and morbidity assumptions		–	–	–	–	3
Termination assumptions	6	(9)	(70)	–	(79)	(55)
Renewal expense assumptions		(16)	2	–	(14)	(216)
Modelling, methodology and other changes	7	(30)	75	14	59	(5)
Momentum Corporate		**(25)**	**(499)**	**(87)**	**(611)**	614
Mortality and morbidity assumptions	8	(27)	(213)	–	(240)	(143)
Termination assumptions		(3)	–	–	(3)	9
Renewal expense assumptions	9	(16)	(220)	–	(236)	526
Modelling, methodology and other changes	9	21	(66)	(87)	(132)	222
Momentum Metropolitan Africa		**21**	**282**	**21**	**324**	(250)
Mortality and morbidity assumptions		13	3	–	16	49
Termination assumptions	10	(36)	49	–	13	(2)
Renewal expense assumptions	11	(20)	(30)	–	(50)	(87)
Modelling, methodology and other changes	12	64	260	21	345	(210)
Total operating assumption changes		**(181)**	**(279)**	**18**	**(442)**	(1 316)

Notes

1 Changes made to basis for mainly protection business, in line with recent experience.
2 Strengthening of basis in line with recent experience investigations.
3 Allowance for the risks relating to the Multiply transition guarantee as well as the introduction of an outstanding claims provision.
4 Strengthening of basis in line with recent experience on single premium savings business.
5 Mainly relates to the impact of the updated estimate of effective policyholder tax rate.
6 Changes made to assumed future premium increase take-up rates.
7 Includes the harmonisation of the credit spread methodology as well as the impact of model rationalisation.
8 Strengthening of morbidity assumptions.
9 Allowance for unit costs in line with budgeted renewal expenses, including a reallocation to longer duration FundsAtWork business, also impacting cost of required capital.
10 Termination assumptions have been adjusted in line with experience.
11 Mainly due to expected business volumes and change in expense allocations.
12 Various modelling and methodology changes, including the implementation of the reduced tax assumption in Lesotho.

H. Investment return on adjusted net worth

Investment return on adjusted net worth	12 mths to 30.06.2019 Rm	Restated 12 mths to 30.06.2018 Rm
Investment income	**670**	559
Capital appreciation and other[1]	**(172)**	171
Preference share dividends paid and change in fair value of preference shares	**(34)**	(35)
Investment return on adjusted net worth	**464**	695

[1] This includes the revaluation of owner-occupied properties.

I. Investment variances

Investment variances represent the impact of higher/lower than assumed investment returns on current and expected future after tax profits from in-force business.

J. Economic assumption changes

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

K. Exchange rate movements

The impact of foreign currency movements on International covered businesses.

L. Impact of change in required capital methodology

With the adoption of the new regulatory framework for South African insurers, the Group's covered businesses elected to adopt the IFRS liabilities as reference for determining the value of in-force business for embedded value purposes. This has resulted in a reallocation of value between the adjusted net worth and value of in-force due to the liability difference between the previous statutory and IFRS liabilities. For purposes of determining the cost of required capital, the capital resources supporting future profits are set equal to the total assets restricted on a regulatory basis in so far as this exceeds IFRS liabilities. This calculation is performed across the projection term and thus may change over time. The total assets restricted on a regulatory basis is the sum of technical provisions, the solvency capital requirement as well as an appropriate resilience buffer.

M. Transfer of business to non-covered business

Transfer of business between covered and non-covered business.

N. Other capital transfers

Capital transfers include the alignment of the net asset value of subsidiaries between covered and non-covered business and the recapitalisation of some International subsidiaries. In addition, the change in the treatment of intercompany loans to align with capital management practices has been analysed as capital transfers (this represents the bulk of the number).

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Sensitivity of the in-force value and the VNB
This section illustrates the effect of different assumptions on the adjusted net worth (ANW), the value of in-force business, the VNB and the cost of required capital. For each sensitivity illustrated, all other assumptions have been left unchanged and, with the exception of the first two sensitivities and the "1% reduction in gross investment return, inflation rate and RDR" sensitivity, the central RDR has been used.

The table below shows the impact on the EV (ANW, value of in-force and cost of required capital) and VNB (gross and net of the cost of required capital) of a 1% change in the RDR. It also shows the impact of independent changes in a range of other experience assumptions. The effect of an equivalent improvement in these experience assumptions would be to increase the base values by a percentage approximately equal to the reductions shown below.

Covered business: sensitivities – 30.06.2019	Adjusted net worth Rm	In-force business Net value Rm	In-force business Gross value Rm	In-force business Cost of required capital[3] Rm	New business written Net value Rm	New business written Gross value Rm	New business written Cost of required capital[3] Rm
Base value	11 758	21 776	24 460	(2 684)	541	804	(263)
1% increase in risk discount rate		19 904	22 962	(3 058)	402	685	(283)
% change		(9)	(6)	14	(26)	(15)	8
1% reduction in risk discount rate		23 871	26 147	(2 276)	699	941	(242)
% change		10	7	(15)	29	17	(8)
10% decrease in future expenses		23 578	26 194	(2 616)	722	977	(255)
% change[1]		8	7	(3)	33	22	(3)
10% decrease in lapse, paid-up and surrender rates		22 456	25 132	(2 676)	681	959	(278)
% change		3	3	–	26	19	6
5% decrease in mortality and morbidity for assurance business		24 254	26 887	(2 633)	708	971	(263)
% change		11	10	(2)	31	21	–
5% decrease in mortality for annuity business		21 349	24 075	(2 726)	509	796	(287)
% change		(2)	(2)	2	(6)	(1)	9
1% reduction in gross investment return, inflation rate and risk discount rate	11 758	22 152	25 167	(3 015)	604	886	(282)
% change[2]	–	2	3	12	12	10	7
1% reduction in inflation rate		22 831	25 352	(2 521)	637	891	(254)
% change		5	4	(6)	18	11	(3)
10% fall in market value of equities and properties	11 436	20 941	23 549	(2 608)			
% change	(3)	(4)	(4)	(3)			
10% reduction in premium indexation take-up rate		21 297	23 949	(2 652)	493	755	(262)
% change		(2)	(2)	(1)	(9)	(6)	–
10% decrease in non-commission-related acquisition expenses					600	863	(263)
% change					11	7	–
1% increase in equity/property risk premium		22 428	25 149	(2 721)	570	835	(265)
% change		3	3	1	5	4	1

1 No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.
2 Bonus rates are assumed to change commensurately.
3 The change in the value of cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.

Directors' report

The directors take pleasure in presenting the audited financial statements of Momentum Metropolitan Holdings Ltd (MMH or the Company) and its subsidiaries (collectively Momentum Metropolitan Group or the Group) for the year ended 30 June 2019.

Nature of activities

Momentum Metropolitan Group is a South African based financial services group that offers a comprehensive range of products and administration services, including life and short-term insurance, employee benefits, medical scheme and asset management, to clients in selected African and other countries. Momentum Metropolitan Holdings Ltd is listed on the JSE and the NSX.

Corporate events

Name change

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

Held for sale

As part of our plan to exit a number of African countries, we have classified entities in three of these African countries, which we plan on exiting in the next 12 months, as held for sale. The remaining entities that the Group plans to exit do not yet meet all the International Financial Reporting Standards (IFRS) criteria to classify as held for sale.

Listed debt

Momentum Metropolitan Life Ltd listed new instruments to the total value of R750 million on the JSE Ltd in March 2019. The instruments are unsecured subordinated callable notes.

Presentation of financial statements

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

Primary earnings metric

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

New reporting segments

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

Corporate governance

The Board has satisfied itself that appropriate principles of corporate governance (King IV™) were applied throughout the year under review.

Contingent liabilities and capital commitments

The Group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The Group is not aware of capital commitments at 30 June 2019 that were not in the ordinary course of business other than what is disclosed in note 31.

Directors' report continued

Results of operations

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

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R2 255 million (2018: R1 369 million) and R2 494 million (2018: R1 468 million) respectively. Group diluted normalised headline earnings were R3 074 million (2018: R2 003 million) and diluted normalised headline earnings per share 202.5 cents (2018: 125.5 cents). Refer to note 1 for a reconciliation of earnings to normalised headline earnings.

Diluted normalised headline earnings is a measure of performance that is used by the Group (in addition to earnings and headline earnings) as it is seen by the directors as an appropriate measure to monitor the Group's performance. Group diluted normalised headline earnings for the current year, as disclosed in the segmental report, is as follows:

	2019		Restated 2018[1]	
Analysis of diluted normalised headline earnings	**Rm**	**% of total**	**Rm**	**% of total**
Momentum Life	**883**	**29**	472	24
Momentum Investments	**512**	**17**	227	11
Metropolitan Retail	**610**	**20**	201	10
Momentum Corporate	**601**	**19**	909	46
Non-life Insurance	**164**	**5**	204	10
Momentum Metropolitan Africa	**262**	**9**	147	7
New Initiatives	**(492)**	**(16)**	(377)	(19)
Shareholders	**534**	**17**	220	11
Total	**3 074**	**100**	2 003	100

[1] Refer to the segmental report for further information on the restatements.

Subsidiaries, associates and joint ventures

Details of significant subsidiary companies are contained in Annexure A. Details of associates are contained in note 5 and Annexure B. Details of joint ventures are contained in note 5.

Share capital

Share issue and repurchase

During the current year, no A3 preference shares were converted into ordinary shares. In the prior year, 752 720 A3 preference shares were converted. The Group concluded its share buy-back programme, which commenced in the prior year, on 29 November 2018. Refer to note 15 for more details.

Share options

The Group has not issued any options on Momentum Metropolitan Holdings Ltd shares. The Group awards units to employees as part of cash-settled share-based schemes – refer to note 14.1.2 for more details.

Momentum Metropolitan Life Ltd preference shares

Momentum Metropolitan Life Ltd has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by Momentum Metropolitan Holdings Ltd. Refer to note 15 for more details.

Shareholder dividend

Momentum Metropolitan Holdings Ltd – ordinary share dividend

During the current year, interim dividends of 35 cents per share were declared in March 2019 and a final dividend of 35 cents per share was declared on 3 September 2019 by the Board, resulting in a total dividend of 70 cents per share. In the prior year, no March or September dividends were declared.

The dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the Company at the close of business on Friday, 27 September 2019, and will be paid on Monday, 30 September 2019. The dividend will be subject to local dividend withholding tax at a rate of 20% unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. This will result in a net final dividend of 28 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Monday, 23 September 2019. The shares will trade ex dividend from the start of business on Wednesday, 25 September 2019. Share certificates may not be dematerialised or rematerialised between Wednesday, 25 September 2019 and Friday, 27 September 2019, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 497 475 356. Momentum Metropolitan Holdings Ltd's income tax number is 975 2050 147.

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

Preference share dividends

Dividends of R18.5 million (2018: R18.5 million) (132 cents per share p.a.) were declared on the unlisted A3 Momentum Metropolitan Holdings Ltd preference shares as determined by the Company's Memorandum of Incorporation.

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

The A3 Momentum Metropolitan Holdings Ltd preference shares are redeemable on 31 December 2020 (after extending it by 18 months in the current year) at a redemption value of R9.18 per share unless converted into Momentum Metropolitan Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Refer to note 11.2.1 for more details.

Shareholders

Details of the Group's shareholders are provided in the shareholder profile note of this report.

Directors' report continued

Directorate, secretary and auditor

The following represents a list of the new Board appointments and resignations or retirements during the year:

	Appointments	Resignations
Ms M Chetty (Group Company Secretary)		30 September 2018
Mr L Basson (acting Group Company Secretary)	30 September 2018	1 March 2019
Mr SA Muller (retired)		26 November 2018
Mr LL von Zeuner		28 February 2019
Ms LM Chiume	1 March 2019	
Ms L de Beer	1 March 2019	
Dr SL McPherson	1 March 2019	
Mr MS Moloko	1 March 2019	
Corpstat Governance Services (Pty) Ltd (interim Group Company Secretary)	1 March 2019	1 July 2019
Ms KS Legoabe-Kgomari	14 June 2019	
Ms G Tyusha (Group Company Secretary)	1 July 2019	

Detailed information regarding the directors and Group Company Secretary of Momentum Metropolitan Holdings Ltd is provided in the Integrated Report which is available in print and online in PDF format at https://www.momentummetropolitan.co.za.

In June 2017, the Independent Regulatory Board of Auditors published a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation ("MAFR"), whereby audit firms shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive years, with effect from 1 April 2023.

The Board of Momentum Metropolitan Holdings Ltd, together with its audit committee, has resolved to early adopt MAFR. As a consequence, PricewaterhouseCoopers Inc. will rotate off the Company's audit on conclusion of its external audit responsibilities for the year ended 30 June 2019, expected to be at the conclusion of the Company's annual general meeting to be held on 26 November 2019.

Shareholders will be informed of the new firm of external auditors once all regulatory approvals have been obtained. The change of external audit firm will be tabled for approval by the Company's shareholders at the Company's next annual general meeting.

Directors' interest

Rand Merchant Insurance Holdings Ltd (RMI), of which Mr P Cooper is a non-executive director, has a direct holding of 26.8% in the Group.

Directors' shareholding

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

	Direct Beneficial '000	Indirect Beneficial '000	Total 2019 '000	Total 2018 '000
Listed				
Executive directors	437	390	827	529
Non-executive directors	414	1 254	1 668	1 718
	851	1 644	2 495	2 247

Refer to the shareholder profile note for the percentage of issued shares held by directors.

All transactions in listed shares of the Company involving directors were disclosed on SENS as required.

No changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE is set out in Annexure F.

The aggregate direct and indirect holdings of the directors in RMI shares at 30 June 2019 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2019 '000	Total 2018 '000
Listed				
Executive directors	26	18	44	44
Non-executive directors	818	3 249	4 067	4 079
	844	3 267	4 111	4 123

The above directors' effective Momentum Metropolitan Holdings Ltd shareholding amounts to 0.07% (2018: 0.07%).

Directors' remuneration

The executive directors have standard employment contracts with the Company or its subsidiaries with a minimum of a one month notice period. The aggregate remuneration of the Momentum Metropolitan Holdings Ltd directors for the period ended 30 June 2019 is set out below. The detail in terms of the Listings Requirements of the JSE is set out in Annexure F.

	Fees R'000	Salary R'000	Short-term incentive payments[1] R'000	Retirement fund R'000	Medical aid R'000	Contractual payment R'000	Total 2019 R'000	Total 2018 R'000
Executive	–	14 300	3 650	490	192	5 506	24 138	49 147
Non-executive	16 099	–	–	–	–	–	16 099	16 128
Total	16 099	14 300	3 650	490	192	5 506	40 237	65 275

[1] Bonus payments relate to the 2018 financial year's bonus.

Directors' report continued

Special resolutions

Momentum Metropolitan Holdings Ltd annual general meeting – 26 November 2018

At the annual general meeting of shareholders of the Company held on 26 November 2018 the following special resolutions were approved:

- The fees for the members of the Board of directors and other committee members were approved.
- The Board of directors was authorised to provide direct or indirect financial assistance for subscription or purchase of securities in related or inter-related entities as contemplated in section 44 of the Companies Act. This approval is valid for two years from the date of approval of this resolution.
- The Board of directors was authorised, by way of a general approval, to authorise the Company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the Board may determine. This approval is valid for two years from the date of approval of this resolution.
- The Board of directors was authorised, by way of a general approval, to enable the Company to acquire up to a maximum of 20% of its own issued share capital in any one financial year, or if acquired by a subsidiary, up to a maximum of 10% of its holding company's issued share capital. Such authority is to remain valid until the Company's next annual general meeting, but not beyond a period of 15 months after the date of approval of this resolution.

Momentum Metropolitan Life Ltd annual general meeting – 27 November 2018

At the annual general meeting of shareholders of the Company held on 27 November 2018 the following special resolutions were approved:

- The fees for the members of the Board of directors and other committee members were approved.
- The Board of directors was authorised to repurchase shares issued by the Company, subject to the provisions of the Memorandum of Incorporation of the Company, the Companies Act and conditions as may be imposed by any other relevant authority.
- The Board of directors was authorised, by way of a general approval, to authorise the Company to provide direct or indirect financial assistance to persons who are related or inter-related to the Company as contemplated in section 45 of the Companies Act, on such terms and conditions and for such amounts as the Board may determine. This approval is valid for two years from the date of approval of this resolution.
- The Board of directors was authorised to provide direct or indirect financial assistance for subscription or purchase of securities in related or inter-related entities as contemplated in section 44 of the Companies Act. This approval is valid for two years from the date of approval of this resolution, subject to compliance with the requirements of the Memorandum of Incorporation and the Companies Act, on such terms and conditions and for as much as the Board may determine.

Borrowing powers

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

Events after the reporting period

Momentum Metropolitan Holdings Ltd, through its wholly-owned subsidiary, Momentum Metropolitan Strategic Investments (Pty) Ltd, has entered into an agreement to acquire the entire Alexander Forbes Short-term Insurance (AFI) business from Alexander Forbes Ltd for R1.94 billion. Refer to note 33 for more details.

No other material events occurred between the reporting date and the date of approval of these results.

Report of the Audit Committee

This report is provided by Momentum Metropolitan's Audit Committee (the Committee) for the financial year ended 30 June 2019

The Committee had discharged its responsibilities as mandated by the Board, its statutory duties in compliance with the Companies Act 71 of 2008, as amended, and the JSE Listings Requirements and best practices in corporate governance, set out in King IV™.

The Committee's terms of reference, which can be found on the Momentum Metropolitan Holdings website, are aligned with the above legislation, regulations and practices.

The Committee comprises of three independent non-executive directors. The Chair of the Committee is not the Chair of the Board of Momentum Metropolitan Holdings Ltd (the Company).

Linda de Beer, has been appointed as a member to the Audit Committee during the year and will take over as Chair as soon as practically possible. Lisa Chiume, who is a non-executive director of the Company, is a permanent invitee. Both these additions will enhance the knowledge, skills and experience of the Committee. To ensure that the Committee continues discharging its duties and for the purposes of continuity and the benefit of their experience, the Board will recommend the long-serving members, Frans Truter and Fatima Daniels, for reappointment at the annual general meeting. Louis van Zeuner resigned and Syd Muller retired as directors and Committee members during the year.

A brief profile of each of the members can be viewed on pages 18 to 23 of the F2019 Integrated Report and the Group's website. The Committee met on six occasions during the year and most members were present at each of these scheduled meetings as reflected on pages 18 to 23 of the Integrated Report.

Key members of management attend meetings of the Committee by invitation. During the year closed sessions were also held for Committee members only, as well as with internal audit, external audit, finance and management.

Key items of focus for the year were the Group's preparation for the introduction of International Financial Reporting Standards (IFRS) 17 in 2021 and the appointment of new external auditors in line with the JSE Listings Requirements.

External audit quality and independence

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

In accordance with Section 94(8) of the Companies Act, the Committee was satisfied with the independence and objectivity of PwC in carrying out their duties as external auditors. All the non-audit services (disclosed on page 122, note 25) provided by the external auditors were approved by the Committee, in accordance with the policy for the provision of non-audit services. Requisite assurance was sought and provided by the external auditor that the internal audit governance processes within the audit firm support and demonstrate its claim of independence. External audit fees are disclosed on page 122 within note 25 to the annual financial statements.

The Committee assessed and is satisfied with the suitability of PwC and the designated auditor, Andrew Taylor, following inspection of the required reports, in line with the JSE Listings Requirements.

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

Report of the Audit Committee continued

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

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

The Committee's response to key audit matters reported by the external auditors

Key audit matters (KAMs) are matters that, in the external auditor's professional judgement, were of most significance in the audit of the AFS for the current financial year. PwC has reported the valuation of insurance contract liabilities as the KAM for the Group and impairment of investment in subsidiaries as the KAM for the Company in the current year (refer to the independent auditor's report in the AFS). The Committee considers these matters by ensuring sufficient controls exist to prepare accurate financial information.

Valuation of insurance contract liabilities

The valuation of insurance liabilities is a critical focus area for the Committee. The Committee reviews the key assumptions used and reasons for basis changes and other adjustments to understand the impact it would have on the calculations. The Momentum Metropolitan Actuarial Committee (the Actuarial Committee) is relied on to interrogate the calculations and feedback from the Chair of that committee is received at the Audit Committee meetings. The Committee applied its mind to this KAM and is comfortable that it has been adequately addressed and disclosed.

Impairment of investment in subsidiaries

This KAM relates to the separate AFS of the Company. The Committee has reviewed the directors' valuations of subsidiaries in the current year and also received feedback from the Actuarial Committee on the appropriateness of the valuations. The Committee is comfortable with the impairment tests performed and that this has been adequately addressed and disclosed.

Internal audit

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

Internal financial controls

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

Group finance director and finance function

The Committee considered and satisfied itself that Risto Ketola has the appropriate expertise and experience to fulfil the role of Group Finance Director; that the finance function is adequately resourced and the finance team has established appropriate financial reporting procedures, which are operating effectively.

Integrated Report and AFS

The Committee reviewed the Group's Integrated Report and AFS for the year ended 30 June 2019 and submits that management presented an appropriate view of the Group's position and performance. The Committee considers that the Group accounting policies and AFS comply, in all material respects, with IFRS.

Going concern

The Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the Company and has made a recommendation to the Board in accordance with this assessment. The Board's statement on the going concern status appears on page 1 of the AFS.

Additional details in relation to the Committee can be found on page 18 of the Integrated Report, which is available on the Company's website www.momentummetropolitan.co.za.

Frans Truter
Chair: Audit Committee
3 September 2019

Statement of financial position

At 30 June 2019

	2019 Rm	2018 Rm	Notes
ASSETS			
Intangible assets	**9 665**	10 515	2
Owner-occupied properties	**4 629**	3 864	3
Property and equipment	**381**	323	
Investment properties	**8 103**	8 614	4
Properties under development	**192**	136	
Investments in associates and joint ventures	**792**	636	5
Employee benefit assets	**469**	436	
Financial assets at fair value through income[1]	**401 093**	395 146	6.1
Investments in associates at fair value through income[1]	**18 314**	11 383	6.2
Derivative financial assets at fair value through income	**2 449**	2 910	6.3
Held-to-maturity financial assets	**–**	437	6
Loans and receivables	**–**	5 629	6.4
Financial assets at amortised cost	**17 106**	–	6.4
Reinsurance contract assets	**5 912**	4 989	7
Deferred income tax	**599**	290	13
Insurance and other receivables	**5 259**	4 962	6.5
Current income tax assets	**184**	283	
Non-current assets held for sale	**608**	–	Annexure H
Cash and cash equivalents	**27 147**	25 812	6.6
Total assets	**502 902**	476 365	
EQUITY			
Equity attributable to owners of the parent	**23 020**	22 328	
Share capital	**13 340**	13 767	15
Other components of equity	**1 721**	1 767	16
Retained earnings	**7 959**	6 794	
Non-controlling interests	**526**	462	
Total equity	**23 546**	22 790	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**116 166**	109 194	8.1
Non-life insurance contracts	**9 603**	8 728	8.2
Capitation contracts	**14**	9	
Investment contracts	**274 853**	272 411	
– with discretionary participation features (DPF)	**23 800**	24 550	9.1
– designated at fair value through income	**251 053**	247 861	9.2
Financial liabilities at fair value through income[1]	**40 753**	38 217	11.1
Derivative financial liabilities at fair value through income	**2 318**	2 255	6.3
Financial liabilities at amortised cost	**3 007**	2 420	11.2
Reinsurance contract liabilities	**1 912**	1 685	12
Deferred income tax	**3 222**	2 874	13
Employee benefit obligations	**1 339**	1 153	14.1
Other payables	**25 064**	14 304	11.3
Provisions	**112**	73	
Current income tax liabilities	**459**	252	
Non-current liabilities held for sale	**534**	–	Annexure H
Total liabilities	**479 356**	453 575	
Total equity and liabilities	**502 902**	476 365	

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

Income statement

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Insurance premiums	**51 974**	42 788	
Insurance premiums ceded to reinsurers	**(15 356)**	(12 895)	
Net insurance premiums	**36 618**	29 893	17
Fee income	**8 449**	7 536	18
Investment contracts	**2 754**	2 384	
Trust and fiduciary services	**1 417**	1 506	
Health administration	**1 931**	1 780	
Other fee income	**2 347**	1 866	
Investment income	**22 137**	20 084	19
Amortised cost[1]	**1 344**	–	
Other investment income	**20 793**	20 084	
Net realised and fair value gains	**1 439**	17 786	20
Net income	**68 643**	75 299	
Insurance benefits and claims	**34 751**	33 889	
Insurance claims recovered from reinsurers	**(8 169)**	(6 657)	
Net insurance benefits and claims	**26 582**	27 232	21
Change in actuarial liabilities and related reinsurance	**5 673**	1 794	
Change in long-term insurance contract liabilities	**6 282**	1 612	8.1
Change in non-life insurance contract liabilities	**110**	(71)	8.2
Change in investment contracts with DPF liabilities	**(588)**	285	9.1
Change in reinsurance assets	**(377)**	(322)	7
Change in reinsurance liabilities	**246**	290	12
Fair value adjustments on investment contract liabilities	**9 107**	17 555	9.2
Fair value adjustments on collective investment scheme liabilities	**(492)**	2 738	
Depreciation, amortisation and impairment expenses	**1 343**	1 226	22
Employee benefit expenses	**6 168**	5 457	23
Sales remuneration	**6 078**	5 796	24
Other expenses	**7 415**	7 779	25
Expenses	**61 874**	69 577	
Results of operations	**6 769**	5 722	
Share of loss of associates and joint ventures	**(269)**	(213)	5
Finance costs	**(1 021)**	(1 048)	26
Profit before tax	**5 479**	4 461	
Income tax expense	**(3 069)**	(3 039)	27
Earnings for year	**2 410**	1 422	
Attributable to:			
Owners of the parent	**2 255**	1 369	1
Non-controlling interests	**155**	53	
	2 410	1 422	
Basic earnings per ordinary share (cents)	**153.1**	88.2	1
Diluted earnings per ordinary share (cents)	**151.6**	88.1	1

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

Statement of comprehensive income

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Earnings for year	**2 410**	1 422	
Other comprehensive (loss)/income, net of tax[1]	**(57)**	138	
Items that may subsequently be reclassified to income	**28**	(6)	
Exchange differences on translating foreign operations	**17**	9	16
Available-for-sale financial assets	**–**	(7)	
Share of other comprehensive income/(loss) of associates	**11**	(8)	16
Items that will not be reclassified to income	**(85)**	144	
Land and building revaluation	**(146)**	131	16
Remeasurements of post-employee benefit funds	**1**	14	16
Income tax relating to items that will not be reclassified	**60**	(1)	16
Total comprehensive income for year	**2 353**	1 560	
Total comprehensive income attributable to:			
Owners of the parent	**2 198**	1 507	
Non-controlling interests	**155**	53	
	2 353	1 560	

[1] Included within other comprehensive income is R6 million (2018: nil) relating to non-current assets classified as held for sale.

Statement of changes in equity

For the year ended 30 June 2019

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attri-butable to owners of the parent Rm	Non-control-ling interests Rm	Total equity Rm	Notes
Balance at 1 July 2017	9	13 737	1 788	7 422	22 956	292	23 248	
Total comprehensive income	–	–	138	1 369	1 507	53	1 560	
Income statement	–	–	–	1 369	1 369	53	1 422	
Other comprehensive income	–	–	138	–	138	–	138	
Dividend paid	–	–	–	(1 442)	(1 442)	(32)	(1 474)	
Share scheme – value of services provided	–	–	43	–	43	–	43	
Decrease in treasury shares held on behalf of contract holders	–	14	–	–	14	–	14	
Transfer to retained earnings from other reserves	–	–	(196)	196	–	–	–	
Transactions with non-controlling interests[1]	–	–	–	223	223	133	356	
Business combinations	–	–	–	–	–	16	16	
Conversion of preference shares	–	7	–	–	7	–	7	
Change in non-distributable reserves	–	–	(6)	–	(6)	–	(6)	
Shares repurchased	–	–	–	(974)	(974)	–	(974)	
Balance at 1 July 2018	9	13 758	1 767	6 794	22 328	462	22 790	
IFRS 9 opening adjustment[2]	**–**	**–**	**–**	**(40)**	**(40)**	**–**	**(40)**	
Restated opening balance	**9**	**13 758**	**1 767**	**6 754**	**22 288**	**462**	**22 750**	
Total comprehensive (loss)/ income	**–**	**–**	**(57)**	**2 255**	**2 198**	**155**	**2 353**	
Income statement	**–**	**–**	**–**	**2 255**	**2 255**	**155**	**2 410**	
Other comprehensive loss	**–**	**–**	**(57)**	**–**	**(57)**	**–**	**(57)**	
Dividend paid	**–**	**–**	**–**	**(509)**	**(509)**	**(90)**	**(599)**	
Share schemes – value of services provided	**–**	**–**	**24**	**–**	**24**	**–**	**24**	
Decrease in treasury shares held on behalf of contract holders	**–**	**60**	**–**	**–**	**60**	**–**	**60**	
Increase in treasury shares held by subsidiary for shareholders	**–**	**(487)**	**–**	**–**	**(487)**	**–**	**(487)**	
Transfer to retained earnings from other reserves	**–**	**–**	**(22)**	**22**	**–**	**–**	**–**	
Transactions with non-controlling interests	**–**	**–**	**–**	**(19)**	**(19)**	**(1)**	**(20)**	
Change in non-distributable reserves	**–**	**–**	**9**	**–**	**9**	**–**	**9**	
Shares repurchased	**–**	**–**	**–**	**(544)**	**(544)**	**–**	**(544)**	15
Balance at 30 June 2019	**9**	**13 331**	**1 721**	**7 959**	**23 020**	**526**	**23 546**	

[1] There were two transactions in Momentum Metropolitan's health business in the prior year. The difference between the consideration received and the net asset value of the relevant subsidiaries was recorded in equity.

[2] The Group adopted IFRS 9 in the current year. Refer to Annexure G for more detail.

Statement of cash flows

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(15 185)**	(12 313)	28.1
Interest received	**14 909**	14 375	
Dividends received	**5 679**	4 561	
Income tax paid	**(2 664)**	(3 053)	28.2
Interest paid	**(1 000)**	(920)	28.3
Net cash inflow from operating activities	**1 739**	2 650	
Cash flow from investing activities			
Acquisition of subsidiaries	**–**	(98)	29
Acquisition of associates and joint ventures	**(463)**	(347)	
Disposal of associates	**–**	83	
Loans advanced to related parties	**(53)**	(75)	
Loans repaid by related parties	**126**	86	
Dividends from associates	**49**	2	
Purchase of owner-occupied properties	**(80)**	(107)	
Proceeds from disposal of owner-occupied properties	**22**	60	
Purchase of property and equipment	**(288)**	(137)	
Proceeds from disposal of property and equipment	**33**	20	
Purchase of intangible assets	**(71)**	(81)	
Net cash outflow from investing activities	**(725)**	(594)	
Cash flow from financing activities			
Other equity transactions	**(2)**	6	
Decrease of treasury shares held on behalf of contract holders	**62**	14	
Increase of treasury shares held by subsidiary for shareholders	**(487)**	–	
Transactions with minority shareholders	**(9)**	356	
Proceeds from borrowings	**7 249**	5 693	28.4
Repayment of borrowings	**(5 349)**	(7 968)	28.4
Subordinated call notes issued	**750**	750	28.4
Subordinated call notes repaid	**(750)**	–	28.4
Dividends paid to equity holders	**(509)**	(1 442)	
Shares repurchased	**(544)**	(974)	
Dividends paid to non-controlling interest shareholders	**(90)**	(32)	
Net cash inflow/(outflow) from financing activities	**321**	(3 597)	
Net cash flow	**1 335**	(1 541)	
Cash resources and funds on deposit at beginning	**25 812**	27 353	
Cash resources and funds on deposit at end	**27 147**	25 812	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**27 147**	25 812	6.6
	27 147	25 812	

Basis of preparation

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

Fair value

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

Other measurement basis

- Insurance contracts, investment contracts with DPF and reinsurance contracts valued using the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- Non-life insurance contracts valued using the Insurance Act of 2017, previously the Directive 169 of 2011 – Prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-term insurers
- Employee benefit obligations measured using the projected unit credit method
- Investments in associates and joint ventures measured using the equity method of accounting or carried at fair value

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

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

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

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

The following published standards are mandatory for the Group's accounting period beginning on or after 1 July 2018 and have been implemented in accordance with the transitional provisions of these standards:

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

Improvements project amendments 2014 – 2016

- IFRS 1 – First time adoption of IFRS
- IAS 28 – Investments in associates and joint ventures

These new and amended standards, other than IFRS 9, had no financial impact on the Group's earnings or net asset value. Refer to Annexure G for more information on IFRS 9 and IFRS 15.

Critical judgements and accounting estimates

Preparation of financial statements

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

Application of accounting policies

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the Group. Management applies judgement in determining best estimates of future experience. Judgements are based on historical experience and management's best-estimate expectations of future events, taking into account changes experienced historically. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying amount of the affected assets and liabilities.

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

- Impairment testing of intangibles – note 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Classification of financial assets – note 6
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 7, 10 and 12
- Provision for deferred tax – note 13
- Assessment of the IFRS 15's principles around the timing of revenue recognition – Annexure D23 and Annexure G
- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10 the Group considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the Group or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Valuation assumptions for financial instruments – Annexure E

Segmental report

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

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

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

- **Momentum Life:** Momentum Life includes protection, savings and life insurance products focused on the middle and affluent client segments.
- **Momentum Investments:** Momentum Investments consists of the Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments, as well as Eris Properties.
- **Metropolitan Retail:** Metropolitan Retail focusses on the lower and middle income retail market segment, with a range of protection and savings products.
- **Momentum Corporate:** Momentum Corporate offers group risk, annuities, pension savings and umbrella fund (FundsAtWork) products and includes Momentum Metropolitan's health business.
- **Momentum Metropolitan Africa:** This segment includes our African operations.
- **Non-life Insurance:** Non-life Insurance comprises the retail general insurance offering, Momentum Short-term Insurance, and the cell captive insurer, Guardrisk.
- **New Initiatives:** This includes India, aYo, Money Management, Lending, Exponential Ventures and Momentum Consult.
- **Shareholders:** The Shareholders segment reflects investment income on capital held to support local operations and some costs not allocated to operating segments (eg certain holding company expenses).

Intergroup fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Intergroup charges are eliminated in the 'Reconciling items' column. No individual customer generates more than 10% of revenue for the Group.

The executive committee of the Group assesses the performance of the operating segments based on diluted normalised headline earnings. This measurement basis excludes adjustments for Momentum Metropolitan shares held by policyholder funds, the amortisation of intangible assets relating to business combinations as well as BEE costs. It includes basis changes and investment variances. For insurance operating segments (excluding Momentum Metropolitan Africa), diluted normalised headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a group basis and is therefore included in the Shareholders segment.

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

Reconciliation of management information to IFRS

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

Segmental report continued

For the year ended 30 June 2019

12 mths to 30.06.2019	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm
Revenue				
Net insurance premiums	9 213	21 039	7 052	20 991
Recurring premiums	8 795	534	5 931	12 601
Single premiums	418	20 505	1 121	8 390
Fee income	1 235	3 375	133	2 842
Fee income	1 201	2 832	133	2 809
Intergroup fee income	34	543	–	33
Expenses				
Net payments to contract holders				
External payments	9 725	26 759	5 804	15 763
Other expenses	3 554	3 094	2 488	3 348
Sales remuneration	1 345	816	984	124
Administration expenses	1 712	1 755	1 463	2 758
Asset management, direct property and other fee expenses	340	335	–	8
Intergroup expenses	157	188	41	458
Income tax	(16)	49	–	33
Diluted normalised headline earnings	883	512	610	601
Operating profit/(loss)	1 224	591	850	813
Tax on operating profit/(loss)	(359)	(119)	(240)	(235)
Investment income	25	38	–	32
Tax on investment income	(7)	(10)	–	(8)
Fair value gains/(losses)	–	16	–	(1)
Tax on fair value gains/(losses)	–	(4)	–	–
Covered	967	355	610	475
Non-covered	(84)	157	–	126
	883	512	610	601
Basis changes and investment variances[3]	(123)	(16)	6	(26)
Actuarial liabilities	73 816	159 255	35 676	96 220

1 The 'Momentum Metropolitan Africa' column includes amounts received/incurred by companies the Group has decided to exit: Net insurance premiums R774 million; external payments R506 million and administration expenses R362 million.

2 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; direct property (R471 million) and asset management fees for all entities (R499 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business (R1 970 million); the amortisation of intangibles relating to business combinations (R751 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

3 Included in diluted normalised headline earnings and is net of tax.

4 The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 453 million, and the total of such non-current assets located in other countries is R309 million.

Non-life Insurance Rm	Momentum Metropolitan Africa[1] Rm	New Initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[2] Rm	IFRS total Rm
10 165	4 692	–	–	73 152	(36 534)	36 618
8 081	4 139	–	–	40 081	(14 458)	25 623
2 084	553	–	–	33 071	(22 076)	10 995
1 528	293	44	77	9 527	(1 078)	8 449
1 527	293	42	–	8 837	(388)	8 449
1	–	2	77	690	(690)	–
4 893	2 802	–	–	65 746	(39 164)	26 582
3 127	1 813	248	290	17 962	3 042	21 004
2 191	618	–	–	6 078	–	6 078
838	989	235	730	10 480	2 762	13 242
–	3	–	28	714	970	1 684
98	203	13	(468)	690	(690)	–
1 309	142	–	45	1 562	1 507	3 069
164	262	(492)	534	3 074	–	3 074
44	102	(489)	(119)	3 016	–	3 016
(25)	(53)	(14)	(44)	(1 089)	–	(1 089)
201	246	13	608	1 163	–	1 163
(56)	(18)	(2)	(114)	(215)	–	(215)
–	(9)	–	258	264	–	264
–	(6)	–	(55)	(65)	–	(65)
–	304	–	507	3 218	–	3 218
164	(42)	(492)	27	(144)	–	(144)
164	262	(492)	534	3 074	–	3 074
–	(11)	–	–	(170)	–	(170)
22 392	13 277	–	–	400 636	–	400 636

Segmental report continued

For the year ended 30 June 2019

Restated 12 mths to 30.06.2018[1]	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm
Revenue				
Net insurance premiums	8 938	20 894	7 368	15 244
Recurring premiums	8 587	403	6 064	11 588
Single premiums	351	20 491	1 304	3 656
Fee income	967	3 383	139	2 619
Fee income	948	2 863	139	2 590
Intergroup fee income	19	520	–	29
Expenses				
Net payments to contract holders				
External payments	9 494	24 337	5 660	16 329
Other expenses	3 527	3 026	2 518	3 076
Sales remuneration	1 348	725	1 060	102
Administration expenses	1 802	1 683	1 400	2 538
Asset management, direct property and other fee expenses	363	384	–	–
Intergroup expenses	14	234	58	436
Income tax	14	101	–	52
Diluted normalised headline earnings	472	227	201	909
Operating profit/(loss)	716	248	281	1 247
Tax on operating profit/(loss)	(257)	(70)	(80)	(356)
Investment income	18	56	–	33
Tax on investment income	(5)	(14)	–	(9)
Fair value gains/(losses)	–	11	–	(8)
Tax on fair value gains/(losses)	–	(4)	–	2
Covered	628	84	201	731
Non-covered	(156)	143	–	178
	472	227	201	909
Basis changes and investment variances[4]	(276)	(250)	(410)	333
Actuarial liabilities	75 173	159 355	34 903	88 160

1 The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

2 The 'Momentum Metropolitan Africa' column includes amounts received/incurred by companies the Group has decided to exit: Net insurance premiums R682 million; external payments R481 million and administration expenses R103 million.

3 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; direct property (R460 million) and asset management fees for all entities (R436 million), except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business (R2 092 million); the amortisation of intangibles relating to business combinations (R715 million); expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

4 Included in diluted normalised headline earnings and is net of tax.

5 The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 471 million, and the total of such non-current assets located in other countries is R617 million.

Non-life Insurance Rm	Momentum Metropolitan Africa[2] Rm	New Initiatives Rm	Shareholders Rm	Segmental total Rm	Reconciling items[3] Rm	IFRS total Rm
8 609	4 251	–	–	65 304	(35 411)	29 893
8 002	3 751	–	–	38 395	(13 204)	25 191
607	500	–	–	26 909	(22 207)	4 702
1 009	289	43	85	8 534	(998)	7 536
1 008	289	42	–	7 879	(343)	7 536
1	–	1	85	655	(655)	–
4 915	2 686	–	–	63 421	(36 189)	27 232
2 848	1 742	209	223	17 169	3 089	20 258
1 946	615	–	–	5 796	–	5 796
808	900	170	634	9 935	2 849	12 784
–	3	6	27	783	895	1 678
94	224	33	(438)	655	(655)	–
1 193	89	–	17	1 466	1 573	3 039
204	147	(377)	220	2 003	–	2 003
134	33	(380)	(117)	2 162	–	2 162
(23)	(40)	–	(58)	(884)	–	(884)
137	169	3	638	1 054	–	1 054
(39)	(27)	–	(141)	(235)	–	(235)
(6)	11	–	(97)	(89)	–	(89)
1	1	–	(5)	(5)	–	(5)
–	271	–	358	2 273	–	2 273
204	(124)	(377)	(138)	(270)	–	(270)
204	147	(377)	220	2 003	–	2 003
–	(48)	–	–	(651)	–	(651)
19 742	13 009	–	–	390 342	–	390 342

Segmental report continued

For the year ended 30 June 2019

Change in diluted normalised headline earnings	Change %	12 mths to 30.06.2019 Rm	Restated 12 mths to 30.06.2018[1] Rm
Momentum Life	87	883	472
Momentum Investments	126	512	227
Metropolitan Retail	203	610	201
Momentum Corporate	(34)	601	909
Non-life Insurance	(20)	164	204
Momentum Metropolitan Africa	78	262	147
New Initiatives	(31)	(492)	(377)
Operating segments	42	2 540	1 783
Shareholders	143	534	220
Total diluted normalised headline earnings	53	3 074	2 003

[1] The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

Segmental analysis 12 mths to 30.06.2019	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Shareholders Rm	Total Rm
Covered									
Protection	487	–	305	112	–	–	–	–	904
Long-term savings	190	113	236	267	–	–	–	–	806
Annuities and structured products	–	261	149	67	–	–	–	–	477
Traditional	199	–	(77)	–	–	–	–	–	122
Other	91	(19)	(3)	29	–	186	–	(39)	245
Investment income	–	–	–	–	–	118	–	546	664
Total	967	355	610	475	–	304	–	507	3 218
Non-covered									
Investment and savings	–	157	–	–	–	–	–	–	157
Life insurance	–	–	–	–	–	(43)	–	–	(43)
Health	–	–	–	166	–	75	–	–	241
Momentum Multiply	(82)	–	–	–	–	–	–	–	(82)
Non-life insurance	–	–	–	–	(43)	27	–	–	(16)
Cell captives	–	–	–	–	207	–	–	–	207
Unallocated expenses	–	–	–	–	–	–	–	(117)	(117)
New Initiatives India	–	–	–	–	–	–	(287)	–	(287)
New Initiatives aYo	–	–	–	–	–	–	(89)	–	(89)
Other	(2)	–	–	(40)	–	(101)	(116)	144	(115)
Total	(84)	157	–	126	164	(42)	(492)	27	(144)
Diluted normalised headline earnings	883	512	610	601	164	262	(492)	534	3 074

Segmental report continued

For the year ended 30 June 2019

Segmental analysis Restated 12 mths to 30.06.2018[1]	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Shareholders Rm	Total Rm
Covered									
Protection	(13)	–	150	293	–	–	–	–	430
Long-term savings	135	109	(118)	196	–	–	–	–	322
Annuities and structured products	–	(25)	75	212	–	–	–	–	262
Traditional	357	–	108	–	–	–	–	–	465
Other	149	–	(14)	30	–	200	–	(83)	282
Investment income	–	–	–	–	–	71	–	(441)	512
Total	628	84	201	731	–	271	–	358	2 273
Non-covered									
Investment and savings	–	143	–	–	–	–	–	–	143
Life insurance	–	–	–	–	–	(32)	–	–	(32)
Health	–	–	–	195	–	49	–	–	244
Momentum Multiply	(152)	–	–	–	–	–	–	–	(152)
Non-life insurance	–	–	–	–	(56)	10	–	–	(46)
Cell captives	–	–	–	–	260	–	–	–	260
Unallocated expenses	–	–	–	–	–	–	–	(97)	(97)
New Initiatives India	–	–	–	–	–	–	(218)	–	(218)
New Initiatives aYo	–	–	–	–	–	–	(58)	–	(58)
Other	(4)	–	–	(17)	–	(151)	(101)	(41)	(314)
Total	(156)	143	–	178	204	(124)	(377)	(138)	(270)
Diluted normalised headline earnings	472	227	201	909	204	147	(377)	220	2 003

1 The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

Momentum Investments – non-covered business	12 mths to 30.06.2019 Rm	Restated 12 mths to 30.06.2018 Rm[1]
Revenue	**1 713**	1 800
Fee income	**1 630**	1 661
Performance fees	**5**	1
Investment income	**69**	108
Fair value gains	**9**	30
Expenses and finance costs	**(1 523)**	(1 555)
Other expenses	**(1 476)**	(1 496)
Finance costs	**(47)**	(59)
Share of profit of associates	**–**	5
Profit before tax	**190**	250
Income tax expense	**(20)**	(81)
Non-controlling interest	**(13)**	(26)
Diluted normalised headline earnings	**157**	143
Operating profit before tax	**151**	155
Tax on operating profit	**(10)**	(58)
Investment income	**23**	47
Tax on investment income	**(6)**	(12)
Fair value (losses)/gains	**(1)**	14
Tax on fair value (losses)/gains	**–**	(3)
Diluted normalised headline earnings	**157**	143
Assets under management at year end	**446 804**	440 399

[1] The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

Segmental report continued

For the year ended 30 June 2019

Health – non-covered business 12 mths to 30.06.2019	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm
Revenue	2 809	828	3 637
Net insurance premiums	785	598	1 383
Fee income	1 939	202	2 141
Investment income	40	28	68
Intergroup fees	45	–	45
Expenses and finance costs	(2 490)	(671)	(3 161)
Net payments to contract holders	(555)	(394)	(949)
Other expenses	(1 932)	(277)	(2 209)
Finance costs	(3)	–	(3)
Profit before tax	319	157	476
Income tax expense	(79)	(46)	(125)
Non-controlling interest	(74)	(36)	(110)
Diluted normalised headline earnings	166	75	241
Operating profit before tax	195	84	279
Tax on operating profit	(51)	(32)	(83)
Investment income	31	33	64
Tax on investment income	(8)	–	(8)
Fair value losses	(1)	(10)	(11)
Diluted normalised headline earnings	166	75	241
Closed schemes	36	75	111
Open scheme	71	–	71
Other	59	–	59
	166	75	241

	Principal members	Lives
Momentum Corporate principal members	1 090 634	
Momentum Metropolitan Africa lives		430 222

Health – non-covered business Restated 12 mths to 30.06.2018[1]	Momentum Corporate Rm	Momentum Metropolitan Africa Rm	Total Rm
Revenue	2 586	774	3 360
Net insurance premiums	694	558	1 252
Fee income	1 831	186	2 017
Investment income	30	30	60
Intergroup fees	31	–	31
Expenses and finance costs	(2 272)	(655)	(2 927)
Net payments to contract holders	(509)	(394)	(903)
Other expenses	(1 760)	(261)	(2 021)
Finance costs	(3)	–	(3)
Profit before tax	314	119	433
Income tax expense	(85)	(37)	(122)
Non-controlling interests	(34)	(33)	(67)
Diluted normalised headline earnings	195	49	244
Operating profit before tax	249	47	296
Tax on operating profit	(72)	(23)	(95)
Investment income	32	28	60
Tax on investment income	(9)	–	(9)
Fair value losses	(7)	(3)	(10)
Tax on fair value losses	2	–	2
Diluted normalised headline earnings	195	49	244
Closed schemes	102	49	151
Open scheme	37	–	37
Other	56	–	56
	195	49	244

	Principal members	Lives
Momentum Corporate principal members	1 052 466	
Momentum Metropolitan Africa lives		440 981

[1] The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

Segmental report continued

For the year ended 30 June 2019

Non-life Insurance – 12 mths to 30.06.2019	Non-life business Rm	Cell captive business Rm	Momentum Metropolitan Africa Rm	Total Rm
Net insurance premiums	868	–	189	1 057
Fee income	2	578	38	618
Management fees	–	296	–	296
Investment fees	–	94	–	94
Underwriting fees	–	179	–	179
Other fee income	2	9	38	49
Investment income	64	168	48	280
Total income	934	746	275	1 955
Expenses and finance costs	(972)	(462)	(253)	(1 687)
Net payments to contract holders	(554)	–	(96)	(650)
Change in actuarial liabilities	–	–	(10)	(10)
Acquisition costs[1]	(121)	–	(37)	(158)
Other expenses	(297)	(447)	(110)	(854)
Finance costs	–	(15)	–	(15)
(Loss)/profit before tax	(38)	284	22	268
Income tax expense	(5)	(77)	9	(73)
Non-controlling interest	–	–	(4)	(4)
Diluted normalised headline earnings	(43)	207	27	191
Operating (loss)/profit before tax	(87)	133	(27)	19
Tax on operating (loss)/profit	9	(34)	9	(16)
Investment income	49	152	27	228
Tax on investment income	(14)	(44)	–	(58)
Fair value gains	–	–	18	18
Diluted normalised headline earnings	(43)	207	27	191
Momentum Short-term Insurance (including Admin)	(43)	–	–	(43)
Guardrisk Group	–	207	–	207
Swaziland	–	–	1	1
Tanzania	–	–	1	1
Momentum Short-term Insurance (Namibia)	–	–	7	7
Cannon Short-term	–	–	18	18
	(43)	207	27	191

[1] The acquisition costs relating to the cell captive business are included in underwriting profit.

Non-life Insurance – Restated 12 mths to 30.06.2018[1]	Non-life business Rm	Cell captive business Rm	Momentum Metropolitan Africa Rm	Total Rm
Net insurance premiums	731	–	164	895
Fee income	6	656	31	693
Management fees	–	456	–	456
Investment fees	–	73	–	73
Underwriting fees	–	125	–	125
Other fee income	6	2	31	39
Investment income	41	117	16	174
Total income	778	773	211	1 762
Expenses and finance costs	(867)	(420)	(201)	(1 488)
Net payments to contract holders	(486)	–	(88)	(574)
Change in actuarial liabilities	–	–	11	11
Acquisition costs[2]	(113)	–	(34)	(147)
Other expenses	(268)	(409)	(90)	(767)
Finance costs	–	(11)	–	(11)
(Loss)/profit before tax	(89)	353	10	274
Income tax expense	33	(93)	1	(59)
Non-controlling interest	–	–	(1)	(1)
Diluted normalised headline earnings	(56)	260	10	214
Operating (loss)/profit before tax	(109)	236	(5)	122
Tax on operating (loss)/profit	39	(60)	1	(20)
Investment income	20	118	17	155
Tax on investment income	(6)	(32)	–	(38)
Fair value losses	–	(3)	(3)	(6)
Tax on Fair value losses	–	1	–	1
Diluted normalised headline earnings	(56)	260	10	214
Momentum Short-term Insurance (including Admin)	(56)	–	–	(56)
Guardrisk Group	–	260	–	260
Swaziland	–	–	2	2
Tanzania	–	–	3	3
Momentum Short-term Insurance (Namibia)	–	–	(3)	(3)
Cannon Short-term	–	–	8	8
	(56)	260	10	214

1 The table has been restated based on a new operating model adopted by the Group. The Group has also adopted diluted normalised headline earnings as its primary earnings measure and not diluted core headline earnings as previously disclosed. Refer to the reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model in this report.

2 The acquisition costs relating to the cell captive business are included in underwriting profit.

Segmental report continued

For the year ended 30 June 2019

India – non-covered business[1]	12 mths to 30.06.2019 Rm	12 mths to 30.06.2018 Rm
Gross written premiums	**996**	483
Net earned premiums	**698**	307
Fee income	**18**	4
Net incurred claims	**(409)**	(268)
Total management expenses	**(784)**	(425)
Net commission expenses	**(95)**	(37)
Underwriting loss	**(572)**	(419)
Investment income	**37**	20
Operating loss	**(535)**	(399)
Investment income on excess	**16**	15
Loss before and after tax	**(519)**	(384)
Momentum Metropolitan share of results (49%)	**(254)**	(188)
Momentum Metropolitan support costs	**(33)**	(30)
Diluted normalised headline earnings	**(287)**	(218)
Number of lives	**2 314 566**	1 012 693

[1] The India results have been reported with a three month lag.

Segment IFRS 15 Revenue from Contracts with Customers[1]	Total revenue in scope of IFRS 15 Contract admini-stration Rm	Trust and fiduciary services Rm	Health admini-stration Rm	Other fee income Rm	Total fee income Rm
12 mths to 30.06.2019					
Momentum Life	**750**	**13**	**–**	**438**	**1 201**
Momentum Investments	**1 420**	**1 336**	**–**	**76**	**2 832**
Metropolitan Retail	**58**	**–**	**–**	**75**	**133**
Momentum Corporate	**396**	**437**	**1 919**	**57**	**2 809**
Non-life Insurance	**108**	**–**	**–**	**1 419**	**1 527**
Momentum Metropolitan Africa	**22**	**15**	**12**	**244**	**293**
New Initiatives	**–**	**8**	**–**	**34**	**42**
Segmental total	**2 754**	**1 809**	**1 931**	**2 343**	**8 837**
Reconciling items	**–**	**(392)**	**–**	**4**	**(388)**
IFRS total	**2 754**	**1 417**	**1 931**	**2 347**	**8 449**

[1] Comparative information not required in terms of IFRS 15.

Reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model

The Group has changed its primary earnings metric from diluted core headline earnings to diluted normalised headline earnings, in order to align closer to earnings metrics used by the South African insurance industry. Furthermore, following a revision to its internal operating structure, the Group has changed its reporting segments, to align to its current operating model.

These changes have been applied to the year ended 30 June 2018. For illustrative purposes, this disclosure supplement provides segmental earnings for the comparative year 30 June 2018 and because of their nature, they do not fairly present Momentum Metropolitan's financial position, changes in equity, results of operations or cash flows. This supplementary financial information is the responsibility of the directors of Momentum Metropolitan.

Primary earnings metric

Momentum Metropolitan has changed its primary earnings metric from diluted core headline earnings to diluted normalised headline earnings. Compared to core headline earnings, normalised headline earnings has fewer adjustments to the definition of headline earnings and is more comparable to primary earnings metrics used by the South African insurance industry.

Normalised headline earnings include the impact of investment variances, actuarial basis changes and other non-recurring items that were previously not reported as part of core headline earnings. However, normalised headline earnings still adjust the standard definition of headline earnings for treasury shares and for the amortisation of intangible assets from business combinations. Momentum Metropolitan is of the opinion that these adjustments present a more realistic picture of underlying performance and remove distortions that might arise from elimination of treasury shares (potential distortions that are peculiar to financial institutions that invest in their own securities on behalf of clients).

New reporting segments

To more meaningfully report on earnings and growth, Momentum Metropolitan has aligned its reporting segments to its revised internal operating structure.

The historic segment of Momentum Retail has been split into Momentum Life and Momentum Investments. Momentum Life includes protection, savings and traditional products focused on the middle and affluent client segments. Momentum Investments consists of Momentum Wealth platform business, local and offshore asset management operations, retail annuities and guaranteed investments, as well as Eris Properties. All Momentum Wealth products are now reported as covered business, and prior year value of new business and present value of new business premiums have been restated accordingly.

There are no material changes to the Metropolitan Retail reporting segment. Metropolitan Retail focusses on the lower to mid-income retail market segment, with a range of protection and savings products.

Momentum Corporate offers group risk, annuities, pensions savings and umbrella funds (FundsAtWork) and includes Momentum Metropolitan's health business.

Non-life Insurance is a new reporting segment, comprising the retail general insurance offering, Momentum Short-term Insurance (MSTI) and the cell captive insurer, Guardrisk.

The former International segment has been split: Momentum Metropolitan Africa (excluding South Africa) will be shown separately, with India and aYo now reported under New Initiatives, alongside Transactional Banking and other smaller initiatives.

The Shareholders segment reflects investment income on capital held to support local operations and some costs not allocated to operating segments (eg certain holding company expenses).

Reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model *continued*

Earnings for the 12 months ending 30 June 2018 – New primary earnings metric with old segment reporting

Segmental analysis	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Published						
12 mths to 30.06.2018						
Covered						
Operating profit	1 096	611	425	191	(8)	2 315
Investment income	–	–	–	–	546	546
Total	1 096	611	425	191	538	2 861
Non-covered						
Investment and savings	1	–	91	99	–	191
Life insurance	–	–	–	(69)	–	(69)
Health	19	–	151	(156)	–	14
Non-life insurance	(56)	–	260	(3)	–	201
Client engagement	(140)	(29)	(8)	(19)	9	(187)
Unallocated expenses	–	–	–	–	(104)	(104)
Other operations	–	(12)	(16)	(91)	21	(98)
Total	(176)	(41)	478	(239)	(74)	(52)
Diluted core headline earnings	920	570	903	(48)	464	2 809
Reconciliation to diluted normalised headline earnings						
Fair value gains/(losses)	7	–	6	14	(67)	(40)
Basis changes and investment variances	(526)	(410)	333	(48)	–	(651)
Non-recurring items	–	–	–	(100)	(15)	(115)
Total reconciling items	(519)	(410)	339	(134)	(82)	(806)
Diluted normalised headline earnings	401	160	1 242	(182)	382	2 003

Reconciliations of diluted core headline earnings under the old model to diluted normalised headline earnings under the new model *continued*

Earnings for the 12 months ending 30 June 2018 – New primary earnings metric with old segment reporting

Segmental analysis	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Corporate Rm	International Rm	Shareholder Capital Rm	Total Rm
Restated						
12 mths to 30.06.2018						
Covered						
Operating profit	571	201	758	200	(46)	1 684
Investment income	–	–	–	–	553	553
Total	571	201	758	200	507	2 237
Non-covered						
Investment and savings	9	–	100	78	–	187
Life insurance	–	–	–	(90)	–	(90)
Health	19	–	149	(169)	–	(1)
Non-life insurance	(56)	–	260	10	–	214
Client engagement	(142)	(29)	(8)	(19)	9	(189)
Unallocated expenses	–	–	–	(5)	(116)	(121)
Net investment income	–	–	–	–	(4)	(4)
Other operations	–	(12)	(17)	(187)	(14)	(230)
Total	(170)	(41)	484	(382)	(125)	(234)
Diluted normalised headline earnings	401	160	1 242	(182)	382	2 003

Reconciliations of diluted core headline earnings under the old model to normalised headline earnings under the new model *continued*

Earnings for the 12 months ending 30 June 2018 – New primary earnings metric with new segment reporting

Segmental analysis	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Shareholders Rm	Total Rm
Diluted normalised headline earnings – old model	401	–	160	1 242	–	(182)	–	382	2 003
Items to restate into new segments									
Split of annuities from Momentum Retail to Momentum Investments	4	(4)	–	–	–	–	–	–	–
Move of investment business to Momentum Investments	(9)	187	–	(100)	–	(78)	–	–	–
Health business allocated to Momentum Corporate only	(19)	–	–	19	–	–	–	–	–
Non-life business, including Guardrisk, disclosed as new segment	56	–	–	(260)	204	–	–	–	–
Split out new initiatives into separate segment	68	–	12	–	–	278	(377)	19	–
Momentum Multiply (excluding money management) moved to Momentum Life	(47)	–	29	8	–	19	–	(9)	–
Wealth on-balance sheet moved to Momentum Investments	(52)	52	–	–	–	–	–	–	–
African life insurance investment income reallocated from Shareholders	–	–	–	–	–	110	–	(110)	–
Tax reallocation from Momentum Retail to Shareholders and other	70	(8)	–	–	–	–	–	(62)	–
	472	227	201	909	204	147	(377)	220	2 003

Reconciliations of diluted core headline earnings under the old model to normalised headline earnings under the new model *continued*

Earnings for the 12 months ending 30 June 2018 – New primary earnings metric with new segment reporting

Segmental analysis	Momentum Life Rm	Momentum Investments Rm	Metropolitan Retail Rm	Momentum Corporate Rm	Non-life Insurance Rm	Momentum Metropolitan Africa Rm	New Initiatives Rm	Shareholders Rm	Total Rm
Covered									
Protection	(13)	–	150	293	–	–	–	–	430
Long-term savings	135	109	(118)	196	–	–	–	–	322
Annuities and structured products	–	(25)	75	212	–	–	–	–	262
Traditional	357	–	108	–	–	–	–	–	465
Other	149	–	(14)	30	–	200	–	(83)	282
Investment income	–	–	–	–	–	71	–	441	512
Total	628	84	201	731	–	271	–	358	2 273
Non-covered									
Investment and savings	–	143	–	–	–	–	–	–	143
Life insurance	–	–	–	–	–	(32)	–	–	(32)
Health	–	–	–	195	–	49	–	–	244
Momentum Multiply	(152)	–	–	–	–	–	–	–	(152)
Non-life insurance	–	–	–	–	(56)	10	–	–	(46)
Cell captives	–	–	–	–	260	–	–	–	260
Unallocated expenses	–	–	–	–	–	–	–	(97)	(97)
New Initiatives India	–	–	–	–	–	–	(218)	–	(218)
New Initiatives aYo	–	–	–	–	–	–	(58)	–	(58)
Other	(4)	–	–	(17)	–	(151)	(101)	(41)	(314)
Total	(156)	143	–	178	204	(124)	(377)	(138)	(270)
Diluted normalised headline earnings	472	227	201	909	204	147	(377)	220	2 003

Notes to the financial statements

For the year ended 30 June 2019

	Basic earnings 2019	Basic earnings 2018	Diluted earnings 2019	Diluted earnings 2018
1 Group earnings per ordinary share				
Attributable to owners of the parent				
Earnings (cents per share)[1, 2]	**153.1**	88.2	**151.6**	88.1
Headline earnings (cents per share)	**168.0**	93.0	**166.2**	92.9
Normalised headline earnings (cents per share)	**207.3**	127.5	**202.5**	125.5

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings 2019 Rm	Basic earnings 2018 Rm	Diluted earnings 2019 Rm	Diluted earnings 2018 Rm
Earnings – equity holders of group	**2 255**	1 369	**2 255**	1 369
Finance costs – convertible preference shares			**37**	40
Dilutory effect of subsidiaries[3]			**(17)**	(16)
Diluted earnings			**2 275**	1 393
Realised gains on available-for-sale financial assets	**–**	(13)	**–**	(13)
Tax on realised gains on available-for-sale financial assets	**–**	2	**–**	2
Intangible asset impairments[4]	**77**	97	**77**	97
Tax on intangible asset impairments	**(15)**	(16)	**(15)**	(16)
Impairment of fixed assets	**22**	–	**22**	–
(Gain)/loss on sale of subsidiary[5]	**(6)**	18	**(6)**	18
Impairments relating to held for sale entities	**87**	–	**87**	–
FCTR reversal on sale of foreign subsidiary[5]	**1**	(13)	**1**	(13)
Impairment of owner-occupied property below cost	**66**	–	**66**	–
Tax on impairment of owner-occupied property below cost	**(13)**	–	**(13)**	–
Headline earnings[6]	**2 474**	1 444	**2 494**	1 468
Adjustments for Momentum Metropolitan shares held by policyholder funds	**35**	(32)	**35**	(32)
Amortisation of intangible assets relating to business combinations	**522**	543	**522**	543
BEE cost	**23**	24	**23**	24
Normalised headline earnings[7]	**3 054**	1 979	**3 074**	2 003
Weighted average number of ordinary shares in issue (million)	**1 473**	1 552	**1 473**	1 552
Adjustments for				
Assumed conversion of 28 million (2018: 28 million) preference shares (weighted)			**28**	28
Diluted weighted average – earnings and headline earnings (million)			**1 501**	1 580
Treasury shares held on behalf of contract holders			**17**	16
Diluted weighted average – normalised headline earnings (million)[8]			**1 518**	1 596

1 Group earnings per ordinary share *continued*

[1] Basic earnings per share – In calculating the basic earnings per share, the exclusion from the income statement of the income in respect of treasury shares requires that these shares similarly be excluded from the weighted average number of ordinary shares in issue.

[2] Diluted earnings per share – This is calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares have dilutive potential. The preference shares are assumed to have been converted into ordinary shares and earnings adjusted to eliminate the interest expense.

[3] The Momentum Metropolitan Namibia group, Metropolitan Kenya and Cannon are consolidated at 96% in earnings. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated.

[4] The current year includes impairments relating to:
- Customer relationships in Momentum Metropolitan Africa due to a decline in the directors' valuation.
- Goodwill and customer relationships in Momentum Corporate (Momentum Metropolitan's health business) due a decline in directors' valuation.
  The prior year impairments relate mainly to software in Metropolitan Retail as certain components are no longer used and goodwill in Momentum Investments (previously International under the old operating model) due to a decline in the directors' valuation relating to a restructure of the UK businesses.

[5] Current year relates to the sale of Mauritius Life in the Momentum Metropolitan Africa segment. Prior year relates to the sale of Momentum Financial Technology in the Momentum Investments segment.

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

[7] Normalised headline earnings excludes adjustments for Momentum Metropolitan shares held by policyholder funds, the amortisation of intangible assets relating to business combinations as well as BEE costs. It includes basis changes and investment variances of negative R170 million (2018: negative R651 million).

[8] For diluted normalised headline earnings per share, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings per share, treasury shares held on behalf of contract holders are deemed to be cancelled.

ACC POLICY
Annex D4

		2019 Rm	2018 Rm
2	**Intangible assets**		
2.1	**Goodwill**	**1 105**	1 124
2.2	**Value of in-force business acquired**	**3 961**	4 236
2.3	**Customer relationships**	**942**	1 349
2.4	**Brands**	**688**	746
2.5	**Broker network**	**281**	319
2.6	**Deferred acquisition costs on long-term investment business**	**2 110**	2 156
2.7	**Computer software**	**430**	497
	Deferred acquisition costs on short-term insurance business	**148**	88
		9 665	10 515
2.1	**Goodwill**		
	Cost	**1 377**	1 410
	Accumulated impairment	**(272)**	(286)
	Carrying amount	**1 105**	1 124
	Carrying amount at beginning	**1 124**	1 128
	Business combinations (refer to note 29)	**–**	27
	Impairment charges	**(19)**	(31)
	Carrying amount at end	**1 105**	1 124
	Cash-generating units (CGUs)		
	Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	**170**	170
	Momentum Metropolitan's health business – Momentum Corporate	**127**	127
	Eris Property Group – Momentum Investments	**191**	191
	Guardrisk – Non-life Insurance	**604**	604
	Other	**13**	32
		1 105	1 124

2 Intangible assets *continued*

2.1 Goodwill *continued*

Critical accounting estimates and judgements

Goodwill is allocated to CGUs for the purpose of impairment testing.

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

Goodwill relating to Providence health business (Momentum Corporate segment) was impaired in the current year due to a decline in directors' valuation.

Goodwill relating to the Financial Partners (Momentum Investments segment) acquisition was impaired in the prior year due to a decline in the directors' valuation relating to a restructure of the UK businesses. Financial Partners and Providence were included in the Other CGU in the table on the previous page.

	2019		2018	
	RDR	Growth rate	RDR	Growth rate
Assumptions				
Ex-Metropolitan group	**12%**	**6%**	12%	7%
Momentum Metropolitan's health business	**15%**	**6%**	12%	7%
Eris Property Group	**15%**	**6%**	15%	6%
Guardrisk	**15%**	**6%**	12%	7%

	To be fully amortised by year:	2019 Rm	2018 Rm
2 Intangible assets *continued*			
2.2 Value of in-force business acquired			
Acquisition of insurance and investment contracts with DPF			
Cost		**6 782**	6 782
Accumulated amortisation		**(2 821)**	(2 546)
Carrying amount		**3 961**	4 236
Carrying amount at beginning		**4 236**	4 527
Amortisation charges		**(275)**	(291)
Carrying amount at end		**3 961**	4 236
The carrying amount is made up as follows:			
Sage – Shareholders	2032	**553**	596
Momentum Namibia – Momentum Metropolitan Africa	2041	**189**	203
Metropolitan/Momentum merger			
Metropolitan Retail	2041	**2 527**	2 673
Momentum Corporate	2041	**518**	548
Momentum Metropolitan Africa	2041	**120**	150
Guardrisk – Non-life Insurance	2029	**54**	64
Other		**–**	2
		3 961	4 236

As a result of certain insurance contract acquisitions, the Group carries intangible assets representing the VIF acquired.

Critical accounting estimates and judgements

The value of in-force business acquired is tested for impairment through the liability adequacy test. Changing the amortisation period by 20% does not have a material impact on group earnings before tax.

			2019 Rm	2018 Rm
2	**Intangible assets** *continued*			
2.3	**Customer relationships**			
	Cost		**4 455**	4 456
	Accumulated amortisation		**(3 379)**	(3 025)
	Accumulated impairment		**(134)**	(82)
	Carrying amount		**942**	1 349
	Carrying amount at beginning		**1 349**	1 617
	Business combinations (refer to note 29)		**–**	107
	Amortisation charges		**(354)**	(374)
	Impairment charges		**(52)**	–
	Exchange differences		**(1)**	(1)
	Carrying amount at end		**942**	1 349
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan/Momentum merger			
	Employee benefits business – Momentum Corporate	2021	**210**	358
	Investment contracts – Momentum Corporate	2029	**457**	493
	Guardrisk – Non-life Insurance	2024	**206**	256
	Providence – Momentum Metropolitan's health business (Momentum Corporate)	2023	**32**	78
	CareCross – Momentum Metropolitan's health business (Momentum Corporate)	2019	**–**	73
	Cannon – Momentum Metropolitan Africa	2020	**–**	24
	Other		**37**	67
			942	1 349

Customer relationships represent the fair value of customer relationships in place immediately before a business combination took place. The recoverable value is determined based on value-in-use calculations with reference to value of in-force business. Refer to assumptions in note 2.1.

Customer relationships relating to the Cannon (Momentum Metropolitan Africa segment) and Providence (Momentum Corporate segment) acquisitions were impaired during the current year due to a decline in the directors' valuations (R24 million and R28 million, respectively).

2 Intangible assets *continued*

2.4 Brands

		2019 Rm	2018 Rm
Cost		**1 208**	1 208
Accumulated amortisation		**(502)**	(444)
Accumulated impairment		**(18)**	(18)
Carrying amount		**688**	746
Carrying amount at beginning		**746**	806
Amortisation charges		**(58)**	(60)
Carrying amount at end		**688**	746
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan brand – Metropolitan Retail (Metropolitan/Momentum merger)	2031	**616**	668
Momentum Namibia brand – Momentum Metropolitan Africa	2027	**14**	16
Guardrisk brand – Non-life Insurance	2034	**58**	62
		688	746

2.5 Broker network

		2019 Rm	2018 Rm
Cost		**561**	561
Accumulated amortisation		**(280)**	(242)
Carrying amount		**281**	319
Carrying amount at beginning		**319**	281
Business combinations (refer to note 29)		**–**	71
Amortisation charges		**(38)**	(33)
Carrying amount at end		**281**	319
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Momentum Short-term Insurance (Namibia) – Momentum Metropolitan Africa	2022	**46**	61
Guardrisk (non-life) – Non-life Insurance	2029	**176**	194
Guardrisk (life) – Non-life Insurance	2034	**59**	64
		281	319

Notes to the financial statements continued

For the year ended 30 June 2019

		2019 Rm	2018 Rm
2	**Intangible assets** *continued*		
2.6	**Deferred acquisition costs on long-term insurance business**		
	Carrying amount at beginning	**2 156**	2 196
	Additions	**374**	619
	Amortisation charges	**(422)**	(661)
	Exchange differences and other	**2**	2
	Carrying amount at end	**2 110**	2 156
2.7	**Computer software**		
	Cost	**1 439**	1 376
	Accumulated amortisation	**(622)**	(498)
	Accumulated impairment	**(387)**	(381)
	Carrying amount	**430**	497
	Carrying amount at beginning	**497**	617
	Additions	**71**	81
	Sale of business	**–**	(7)
	Business combinations (refer to note 29)	**–**	5
	Amortisation charges	**(133)**	(134)
	Impairment charges	**(6)**	(66)
	Exchange differences	**1**	1
	Carrying amount at end	**430**	497

Internally developed software used by Metropolitan Retail was impaired in the prior year (2018: R58 million) due to a change in scope and operating model resulting in certain components no longer being used.

Internally developed software

Included in computer software is a carrying amount of R109 million (2018: R202 million) representing internally developed software.

Material computer software

The Non-life Insurance segment has computer software of R111 million (2018: R93 million) relating to Momentum Short-term Insurance's line of business system which will be fully amortised by 2027. For impairment testing purposes, a cost of capital of 14% (2018: 14%) was used to present value the future economic benefits of the software. No impairment was required.

Guardrisk (Non-life Insurance) has computer software of R36 million (2018: R44 million) relating to cell captive and product administration systems which will be fully amortised by 2024. For valuation purposes a RDR of 15% (2018: 12%) and a growth rate of 6% (2018: 7%) was used. No impairment was required.

Momentum Multiply (Momentum Life) has computer software of R89 million (2018: R108 million) relating to the wellness and rewards platform which will be fully amortised by 2026. For valuation purposes a RDR of 12% (2018: 15%) was used. No impairment was required.

ACC POLICY
Annex D5

	2019 Rm	2018 Rm
3 Owner-occupied properties		
Owner-occupied properties – at fair value	**4 629**	3 864
Historical carrying amount – cost model	**4 206**	2 736
Fair value at beginning	**3 864**	4 105
Additions	**80**	107
Disposals	**(22)**	(60)
Revaluations	**(185)**	44
Depreciation charges	**(37)**	(75)
Impairment charges	**(66)**	–
Transfer from/(to) investment properties	**996**	(260)
Exchange differences	**(1)**	3
Fair value at end	**4 629**	3 864

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

Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements

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

The impairment in the current year relates to a decrease in the property valuation of certain buildings where the valuation is below cost.

			Change in fair value	
Assumptions	**Base assumption**	**Change in assumption**	**Decrease in assumption Rm**	**Increase in assumption Rm**
Capitalisation rate	**8.0% – 10.0%**	**10%**	**106**	**(87)**
Discount rate	**13.0% – 15.0%**	**10%**	**69**	**(134)**

Capitalisation and discount rates (2018: 8.0% – 11.0% and 13.0% – 16.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the Group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

Notes to the financial statements continued

For the year ended 30 June 2019

ACC POLICY Annex D6

		2019 Rm	2018 Rm
4	**Investment properties**		
	At 30 June, investment properties comprised the following property types:		
	Industrial	**511**	286
	Shopping malls	**3 875**	3 707
	Office buildings	**3 470**	2 068
	Hotels	**267**	264
	Vacant land	**63**	66
	Other	**212**	2 475
	Property at valuation	**8 398**	8 866
	Accelerated rental income (refer to note 6.5)	**(295)**	(252)
		8 103	8 614
	Investment properties under development		
	Fair value at beginning	**2 063**	691
	Capitalised development expenditure	**384**	1 196
	Revaluations	**–**	8
	Transfer from owner-occupied properties	**297**	168
	Transfer to completed properties[1]	**(2 552)**	–
	Fair value at end	**192**	2 063
	Completed properties		
	Fair value at beginning	**6 551**	6 649
	Capitalised subsequent expenditure	**473**	24
	Additions	**60**	61
	Disposals	**(742)**	(594)
	Revaluations	**350**	329
	Change in accelerated rental income	**(43)**	(4)
	Transfer (to)/from owner-occupied properties[2]	**(1 293)**	92
	Transfer from investment properties under development[1]	**2 552**	–
	Exchange differences and other	**3**	(6)
	Fair value at end	**7 911**	6 551

[1] The current year relates to the Marc building, Tower 1 and 2.
[2] The current year relates to the Marc building, Tower 2, as employees will be occupying a significant portion of the building.

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

Investment properties are classified as level 3.

4 Investment properties *continued*

Critical accounting estimates and judgements

All properties were internally or externally valued using a DCF method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2019, amounting to 24% (2018: 10%) of the portfolio for the Group. Eris is responsible for the majority of the internal valuations of the Group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	Base assumption	Change in assumption	Change in fair value Decrease in assumption Rm	Change in fair value Increase in assumption Rm
Capitalisation rate	7.0% – 11.0%	10%	254	(573)
Discount rate	10.0% – 15.0%	10%	164	(157)

Capitalisation and discount rates (2018: 7.6% – 9.7% and 12.7% – 14.2% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

ACC POLICY
Annex D2.2 and D2.3

	2019 Rm	2018 Rm
5 Investments in associates and joint ventures		
Carrying amount at beginning	636	595
Additions	463	347
Disposals	–	(83)
Share of loss	(269)	(213)
Dividends paid	(49)	(2)
Exchange differences	11	(8)
Carrying amount at end – non-current	792	636

2019 Equity-accounted associates and joint ventures*	%**	Carrying amount Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	461	1 351	(982)	716	(255)
RMI Investment Managers Affiliates 2 (Pty) Ltd (RMI)	49%	139	405	(116)	7	(9)
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	51	63	(50)	130	4
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	5	89	(54)	2	17
Other		41	***	***	***	1
		697				(242)
Joint ventures						
aYo Holdings Ltd (aYo)	50%	86	122	(2)	1	(27)
MMI Lending (Lending)	50%	9	44	(39)	14	–
		95				(27)

Notes to the financial statements continued

For the year ended 30 June 2019

5 Investments in associates and joint ventures *continued*

2018 Equity-accounted associates and joint ventures*	%**	Carrying amount Rm	Assets# Rm	Liabilities# Rm	Revenue# Rm	Earnings** Rm
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	379	713	(504)	304	(188)
RMI Investment Managers Affiliates 2 (Pty) Ltd (RMI)	49%	82	296	(122)	8	(9)
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	47	52	(37)	111	5
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	34	296	(223)	30	5
Other		38	***	***	***	5
		580				(182)
Joint ventures						
aYo Holdings Ltd (aYo)	50%	47	122	(2)	1	(19)
MMI Lending (Lending)	50%	9	73	(64)	4	(12)
		56				(31)

* All entities' principal place of business is in South Africa unless otherwise stated.
** Effective group percentage held.
*** This amount consists of various associates' financial information.
# This represents the actual assets, liabilities and revenue of the associate or joint venture at the end of the financial year.

- ABHIL is a health insurance business and was formed by Momentum Metropolitan Strategic Investments (Pty) Ltd (MMSI) and Aditya Birla Financial Services Ltd (incorporated in India). The carrying amount of the associate includes funding advanced to the Company in addition to the capital acquired. The total assets consist of R210 million current assets and R1 141 million non-current assets. The total liabilities consist of R439 million current liabilities and R543 million non-current liabilities. The principal place of business is in India.
- RMI is an investment company that invests in asset management business.
- Aluwani is an asset management services company that is 40% held by MMSI in the Momentum Investments segment.
- EPF CV (Shareholders segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The Group also owns 31.67% of the preference shares in EPF. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- aYo is a joint venture between MMSI and MTN (Dubai). aYo is a micro insurer for the African market.
- Lending is a joint venture between MMSI and African Bank.

6 Financial assets

ACC POLICY Annex D7 and 9

The Group classifies its financial assets into the following categories:

- Financial assets at fair value through income, including derivative financial assets
- Financial assets at amortised cost
- Loans and receivables (IAS 39 classification prior year)
- Held-to-maturity financial assets (IAS 39 classification prior year)

The classification is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). Management determines the classification of its financial assets at initial recognition.

		2019 Rm	2018 Rm
	The Group's financial assets are summarised below:		
6.1	**Financial assets at fair value through income**	401 093	395 146
6.2	**Investments in associates at fair value through income**	18 314	11 383
6.3	**Derivative financial assets at fair value through income**	2 449	2 910
6.4	**Financial assets at amortised cost (excluding prepayments)**	16 864	5 433
6.5	**Insurance and other receivables (excluding accelerated rental income)**	4 964	4 710
6.6	**Cash and cash equivalents**	27 147	25 812
	Held-to-maturity financial assets	–	437
	Total financial assets	470 831	445 831
6.1	**Financial assets at fair value through income**		
	Equity securities	97 785	104 199
	Debt securities	127 680	108 618
	Funds on deposit and other money market instruments	28 707	27 524
	Unit-linked investments	146 921	154 805
		401 093	395 146
	Open-ended	242 827	259 846
	Current	45 770	45 358
	Non-current	112 496	89 942
	1 to 5 years	49 531	37 845
	5 to 10 years	19 943	17 985
	> 10 years	43 022	34 112
		401 093	395 146

General

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

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

		2019 Rm	2018 Rm
6.2	**Investments in associates at fair value through income**		
	Collective investment schemes (refer to Annexure B)	18 314	11 383

Notes to the financial statements continued

For the year ended 30 June 2019

	2019 Assets Rm	2019 Liabilities Rm	2018 Assets Rm	2018 Liabilities Rm
6 Financial assets *continued*				
6.3 Derivative financial instruments				
Held for trading	**2 449**	**2 318**	2 910	2 255
Current	**1 038**	**522**	1 178	374
Non-current	**1 411**	**1 796**	1 732	1 881
	2 449	**2 318**	2 910	2 255

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

Under no circumstances are derivative contracts entered into for speculative purposes. Where derivative financial instruments do not meet the hedge accounting criteria they are classified and accounted for as instruments carried at fair value through income in accordance with the requirements of IFRS 9 in the current year and as held for trading in accordance with IAS 39 – Financial instruments: recognition and measurement in the prior year.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

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

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

	2019			2018		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
6 Financial assets *continued*						
6.3 Derivative financial instruments *continued*						
Derivatives held for trading						
Equity derivatives		**20**	**22**		125	165
Options, OTC	**–**	**1**	**–**	–	–	–
Options, exchange traded	**(917)**	**7**	**–**	301	13	–
Futures, exchange traded	**1 322**	**3**	**–**	1 992	112	131
Swaps, OTC	**(13)**	**9**	**22**	(34)	–	34
Interest rate derivatives		**2 088**	**1 227**		2 749	1 044
Options, OTC	**(310)**	**13**	**–**	(174)	9	–
Swaps, OTC	**900**	**2 074**	**1 222**	1 714	2 740	1 044
Forward rate agreement, OTC	**(4)**	**1**	**5**	–	–	–
Bonds		**55**	**9**		8	98
Options, exchange traded	**1**	**–**	**–**	47	–	–
Futures, OTC	**4 580**	**55**	**9**	3 511	8	98
Futures, exchange traded	**1 705**	**–**	**–**	2 017	–	–
Credit derivatives		**12**	**–**		5	4
Swaps, OTC	**12**	**12**	**–**	1	5	4
Currency derivatives		**274**	**1 060**		23	944
Options, OTC	**(4 660)**	**250**	**163**	–	–	–
Futures, OTC	**1 126**	**22**	**–**	1 022	7	1
Futures, exchange traded	**36**	**–**	**–**	(22)	16	–
Swaps, OTC	**(896)**	**2**	**897**	(943)	–	943
Total derivative financial instruments		**2 449**	**2 318**		2 910	2 255

6 Financial assets *continued*

6.3 Derivative financial instruments *continued*

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

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

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

Offsetting

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

	2019 Rm	2018 Rm
Derivative financial assets		
Gross and net amounts of recognised financial assets[1]	**2 449**	2 910
Related amounts not set off in the statement of financial position		
Financial instruments	**(1 139)**	(779)
Net amount	**1 310**	2 131
Derivative financial liabilities		
Gross and net amounts of recognised financial liabilities[1]	**2 318**	2 255
Related amounts not set off in the statement of financial position		
Financial instruments	**(1 139)**	(779)
Net amount	**1 179**	1 476

[1] No offsetting in current and prior year.

	2019 Rm	2018 Rm
6 Financial assets *continued*		
6.4 Financial assets at amortised cost		
Debt securities[1]	**387**	–
Funds on deposit and other money market instruments[1]	**78**	–
Accounts receivable (excluding prepayments)	**2 407**	2 138
Less: provision for impairment[2]	**(162)**	–
Unsettled trades	**11 565**	602
Loans	**2 589**	2 693
Related party loans		
Staff loans	**59**	67
Loans due from associates	**87**	94
Preference shares	**83**	102
Empowerment partners	**263**	263
Other related party loans	**147**	95
Less: provision for impairment on related party loans	**(31)**	(12)
Other loans		
Due from agents, brokers and intermediaries	**413**	405
Less: provision for impairment	**(108)**	(127)
Policy loans	**1 269**	1 383
Other	**407**	423
Total included in financial assets	**16 864**	5 433
Prepayments	**242**	196
Total financial assets at amortised cost	**17 106**	5 629
Current	**16 579**	5 237
Non-current	**527**	392
	17 106	5 629

1 These financial assets were previously classified as held-to-maturity under IAS 39.
2 With the implementation of IFRS 9, the expected credit loss on accounts receivable is also disclosed. The prior year was disclosed in terms of IAS 39 and was not restated.

Reconciliation of expected credit losses 2019	**Accounts receivable Rm**	**Related party loans Rm**	**Due from agents, brokers and intermediaries Rm**	**Total Rm**
Balance at beginning	(82)	(12)	(127)	(221)
IFRS 9 opening retained earnings adjustment	**(23)**	**(1)**	**(22)**	**(46)**
Adjusted opening balance	**(105)**	**(13)**	**(149)**	**(267)**
Additional provision	**(77)**	**(18)**	**(35)**	**(130)**
Reversed to the income statement	**7**	**–**	**76**	**83**
Bad debts written off	**13**	**–**	**–**	**13**
Balance at end	**(162)**	**(31)**	**(108)**	**(301)**

Reconciliation of aggregated provision accounts	**2018 Rm**
Balance at beginning	184
Additional provision	14
Utilised/reversed during year	(24)
Other	(35)
Balance at end	139

6 Financial assets *continued*

6.4 Financial assets at amortised cost *continued*

Terms and conditions of material loans

- The R263 million (2018: R263 million) loan to empowerment partners relates to A3 preference shares acquired on 2 December 2011 in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the Company that the Group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 31 December 2020 (after extending it under the same terms by 18 months in the current year). During the current year, Momentum Metropolitan Holdings Ltd subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd which is linked to the A3 preference shares acquired in 2011.

- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 11% (2018: 11%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Refer to note 6.7 for the split of the credit risk and expected credit loss allowances into stages.

		2019 Rm	2018 Rm
6.5	**Insurance and other receivables**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 896**	4 631
	Insurance contract holders	**2 413**	2 291
	Investment contract holders with DPF	**79**	216
	Cell captives	**1 300**	1 206
	Less: provision for impairment	**(111)**	(116)
	Due from reinsurers	**1 215**	1 034
	Other	**68**	79
	Total included in financial assets	**4 964**	4 710
	Accelerated rental income	**295**	252
	Total insurance and other receivables	**5 259**	4 962
	Current	**5 089**	4 819
	Non-current	**170**	143
		5 259	4 962

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

Impairment is mainly due to expected payment defaults.

		2019 Rm	2018 Rm
6.6	**Cash and cash equivalents**		
	Bank and other cash balances	**14 391**	11 002
	Funds on deposit and other money market instruments – maturity < 90 days	**12 756**	14 810
		27 147	25 812

	2019 Rm	2018 Rm
6 Financial assets *continued*		
6.7 Credit risk		
Refer to note 41 for detail on the credit risk management.		
Credit risk exposure		
The Group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying amounts:		
Financial assets at fair value through income		
Debt securities	**127 680**	108 618
Stock and loans to government and other public bodies	**58 480**	46 332
Other debt instruments	**69 200**	62 286
Funds on deposit and other money market instruments	**28 707**	27 524
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	**24 592**	23 139
Collective investment schemes	**23 307**	20 633
Other unit-linked investments	**1 285**	2 506
Derivative financial assets – Held for trading	**2 449**	2 910
Held-to-maturity financial assets	**–**	437
Financial assets at amortised cost (2018: Loans and receivables)	**16 864**	5 433
Debt securities at amortised cost[1]	**387**	–
Funds on deposit and other money market instruments at amortised cost[1]	**78**	–
Accounts receivable (excluding prepayments)	**2 245**	2 138
Unsettled trades	**11 565**	602
Loans	**2 589**	2 693
Insurance and other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 896**	4 631
Cash and cash equivalents	**27 147**	25 812
Non-current assets held for sale at fair value through income	**281**	–
Total assets bearing credit risk	**232 616**	198 504

[1] These financial assets were previously classified as held-to-maturity under IAS 39.

Credit risk balances – expected credit loss 2019	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
Financial assets at amortised cost				
Debt securities	**387**	**–**	**–**	**387**
Funds on deposit and other money market instruments	**78**	**–**	**–**	**78**
Accounts receivable	**2 112**	**98**	**197**	**2 407**
Provision for impairment	**(24)**	**(7)**	**(131)**	**(162)**
Unsettled trades	**11 565**	**–**	**–**	**11 565**
Due from agents, brokers and intermediaries	**239**	**83**	**91**	**413**
Provision for impairment	**–**	**(28)**	**(80)**	**(108)**
Policy loans	**1 269**	**–**	**–**	**1 269**
Other	**1 017**	**2**	**27**	**1 046**
Provision for impairment	**(17)**	**–**	**(14)**	**(31)**
	16 626	**148**	**90**	**16 864**

Notes to the financial statements continued

For the year ended 30 June 2019

6 Financial assets *continued*

6.7 Credit risk *continued*

Reconciliation of expected credit losses 2019	12 month expected credit losses (Stage 1) Rm	Lifetime expected credit losses (Stage 2 and 3) Rm	Total Rm
Accounts receivable			
Adjusted opening balance	(10)	(95)	(105)
Movement recognised in the income statement	(14)	(56)	(70)
Bad debts written off	–	13	13
Closing balance	(24)	(138)	(162)
Related party loans			
Adjusted opening balance	(8)	(5)	(13)
Movement recognised in the income statement	(18)	–	(18)
Closing balance	(26)	(5)	(31)
Due from agents, brokers and intermediaries			
Adjusted opening balance	–	(149)	(149)
Movement recognised in the income statement	–	41	41
Closing balance	–	(108)	(108)

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

6 Financial assets *continued*

6.7 Credit risk *continued*

Staging definitions

Stage	Debt securities and funds on deposit and other money market instruments	Accounts receivable and unsettled trades	Due from agents, brokers and intermediaries	Loans	Basis for recognition of expected credit loss provision
Stage 1	• Low risk of default • Strong capability to meet contractual payments	• Low risk of default • Strong capability to meet contractual payments	• Low risk of default • Strong ability to meet contractual payments	• Loans are recoverable • Low risk of default • Strong capability to meet contractual payments • Repayment of interest and capital payments in line with terms of agreements • No restructuring of the loan has occurred	12 months expected losses
Stage 2	Financial assets move to stage two if the instruments investment grade falls with two rating grades	• Significant increase in credit risk • Repayments are more than 30 days and less than 90 days past due	• Significant increase in credit risk • Repayments are more than 30 days and less than 90 days past due	• Loans are recoverable • Repayment of interest and capital significantly in line with the terms of agreements, ie not more than 30 days past due • Some loans may be restructured based on operational needs, but with no effect on interest and capital repayment ability, ie credit quality has deteriorated based on the need for restructure, but adequate repayment plans in place. • Significant deterioration of credit quality	Lifetime expected losses
Stage 3	• Financial assets move to stage three if the instruments investment grade falls an additional two rating grades since classified as stage two	• Significant increase in credit risk • Repayments are more than 90 days past due	• Broker balances are more than 90 days past due or where legal action has been taken • Out-of-service brokers and financial planners	• Loans are partially recoverable • Repayment of interest and capital payments not in line with terms of agreement • Significant deterioration in credit quality • Loans restructured	Lifetime expected losses
Written off	Long outstanding amounts due are evaluated on a case by case basis and would generally be written off when there is no alternative for the debtor to return to solvency and/or legal action taken was unsuccessful				

6 Financial assets *continued*

6.7 Credit risk *continued*

Significant increase in credit risk	Criteria
Debt securities and funds on deposit and other money market instruments	Significant increase in credit risk means that the credit rating of the instrument has dropped by two ratings.
Accounts receivable, unsettled trades, due from agents, broker and intermediaries and loans	To determine a significant change in credit risk both historical data and forward looking information is taken into account. This includes existing or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, a breach of contract, significant changes in the value of any collateral supporting the obligation and reductions in financial support from a parent entity.

Financial asset	Impairment information
Debt securities and funds on deposit and other money market instruments	The expected credit loss is calculated using information extracted from the reports published by the rating agencies annually.
Accounts receivable and unsettled trades	Impairment of accounts receivable is based on the recoverability of balances grouped together based on shared credit risk characteristics, eg instrument type. Balances generally relate to amounts where the timing of settlement is within one month. Historic payments as well as forward looking information is also taken into account.
Due from agents, brokers and intermediaries	Impairment of amounts due from agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held.

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

Credit quality

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

6 Financial assets *continued*

6.7 Credit risk *continued*

Credit quality *continued*

2019	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC Rm	Unrated Rm	Total Rm
Financial assets at fair value through income									
Debt securities – stock and loans to government and other public bodies	46 338	10 532	710	364	–	31	81	424	58 480
Debt securities – other debt instruments	16 129	41 495	8 117	744	39	253	404	2 019	69 200
Cash and cash equivalents and funds on deposit and other money market instruments	6 370	43 053	3 076	2 212	747	1	–	395	55 854
Derivative financial assets	1 165	1 225	18	–	–	–	–	41	2 449
Non-current assets held for sale at fair value through income	–	12	–	–	269	–	–	–	281
Debt securities and funds on deposit and money market instruments at amortised cost	–	–	–	–	–	465	–	–	465
Other unrated instruments									
Financial assets at amortised cost	–	–	–	–	–	–	–	16 399	16 399
Other receivables	–	–	–	–	–	–	–	4 896	4 896
Unit-linked investments[1]	–	–	–	–	–	–	–	24 592	24 592
	70 002	96 317	11 921	3 320	1 055	750	485	48 766	232 616

2018	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	35 887	8 475	989	331	39	150	–	461	46 332
Debt securities – other debt instruments	10 899	39 468	7 887	1 114	745	372	–	1 801	62 286
Cash and cash equivalents and funds on deposit	4 084	39 528	4 870	960	2 106	92	–	1 696	53 336
Derivative financial instruments	940	1 841	102	–	–	–	–	27	2 910
Held-to-maturity	–	–	–	–	–	–	–	437	437
Other unrated instruments									
Loans and other receivables	–	–	–	–	–	–	–	5 433	5 433
Other receivables	–	–	–	–	–	–	–	4 185	4 185
Unit-linked investments[1]	–	–	–	–	–	–	–	23 139	23 139
Past due or impaired assets	–	–	–	–	–	–	–	446	446
	51 810	89 312	13 848	2 405	2 890	614	–	37 625	198 504

[1] Refer to Annexure B for detail on unit-linked investments and note 41 for credit risk management relating to unit-linked investments.

Notes to the financial statements continued

For the year ended 30 June 2019

6 Financial assets *continued*

6.7 Credit risk *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the Group has reinsured of R1 215 million (2018: R1 034 million) (included in note 6.5) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

Reinsurer	2019 Reinsured portion – %	2019 Credit rating	2018 Reinsured portion – %	2018 Credit rating
Swiss Re	**28%**	**AA-**	29%	AA-
General Cologne Re	**24%**	**AA+**	24%	AA+
Hannover Re	**4%**	**A-**	5%	AA-
RGA Re	**15%**	**AA-**	13%	AA-
Munich Re	**26%**	**A-**	27%	AA-
Other	**3%**	**A**	2%	A
	100%		100%	

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

2019	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**660**	**127**	**105**	**10**	**902**

2018	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	165	3	29	1	198
Accounts receivable	989	453	76	–	1 518
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	744	123	29	13	909
	1 898	579	134	14	2 625

6 Financial assets *continued*

6.7 Credit risk *continued*

Financial assets designated at fair value through income

Certain instruments in the Group's statement of financial position, listed per class in the table below, that would have otherwise been classified as loans and receivables under IAS 39, have been designated at fair value through income.

	Carrying amount 2018 Rm
Debt securities[1]	78 269
Funds on deposit and other money market instruments[1]	25 873
	104 142

[1] Refer to note 6.9 for current year figures.

6.8 Financial assets hierarchy

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

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

2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities at fair value through income	271 776	125 637	3 680	401 093
Equity securities				
Local listed	75 251	2	1	75 254
Foreign listed	21 565	643	186	22 394
Unlisted	–	3	134	137
Debt securities				
Stock and loans to government and other public bodies				
Local listed	37 598	11 820	–	49 418
Foreign listed	1 559	2 726	2	4 287
Unlisted	–	4 237	538	4 775
Other debt instruments				
Local listed	–	34 970	3	34 973
Foreign listed	165	2 327	60	2 552
Unlisted	–	31 062	613	31 675
Funds on deposit and other money market instruments	–	28 659	48	28 707
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	86 101	586	–	86 687
Foreign unlisted or listed quoted	47 480	123	3	47 606
Foreign unlisted unquoted	–	914	477	1 391
Other unit-linked investments				
Local unlisted or listed quoted	2 051	1 331	3	3 385
Local unlisted unquoted	–	6 234	1 436	7 670
Foreign unlisted or listed quoted	6	–	40	46
Foreign unlisted unquoted	–	–	136	136
Investments in associates at fair value through income[1]	18 151	–	163	18 314
Derivative financial instruments – Held for trading	10	2 439	–	2 449
	289 937	128 076	3 843	421 856

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

[2] R1.3 billion local unlisted or listed quoted other unit-linked instruments were transferred from level 2 to level 1 in the current year as through further interrogation it was deemed more appropriate to disclose as level 1. There were no other significant transfers between level 1 and level 2 assets in the current or prior years.

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
6 Financial assets *continued*				
6.8 Financial assets hierarchy *continued*				
Securities designated at fair value through income	272 668	118 701	3 777	395 146
Equity securities				
Local listed	80 730	1	1	80 732
Foreign listed	22 138	1 074	176	23 388
Unlisted	–	19	61	80
Debt securities				
Stock and loans to government and other public bodies				
Local listed	27 061	11 901	–	38 962
Foreign listed	1 157	2 131	2	3 290
Unlisted	–	3 866	214	4 080
Other debt instruments				
Local listed	143	30 742	50	30 935
Foreign listed	–	2 299	89	2 388
Unlisted	–	27 511	1 453	28 964
Funds on deposit and other money market instruments	–	27 524	–	27 524
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	93 158	715	–	93 873
Foreign unlisted or listed quoted	47 959	79	69	48 107
Foreign unlisted unquoted	–	592	505	1 097
Other unit-linked investments				
Local unlisted or listed quoted	322	3 586	22	3 930
Local unlisted unquoted	–	6 661	1 054	7 715
Foreign unlisted unquoted	–	–	81	81
Investments in associates designated at fair value through income[1]	11 383	–	–	11 383
Derivative financial instruments – Held for trading	116	2 794	–	2 910
	284 167	121 495	3 777	409 439

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

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

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

2019	At fair value through income Equity securities Rm	Debt securities Rm	Funds on deposit and other money market instruments Rm	Unit-linked invest-ments Rm	Investments in associates Unit-linked investments Rm	Total Rm
Opening balance	238	1 808	–	1 731	–	3 777
Transfer to non-current assets held for sale	–	–	–	(44)	–	(44)
Total gains/(losses) in net realised and fair value gains in the income statement						
Realised (losses)/gains	(32)	(11)	–	123	–	80
Unrealised gains/(losses)	91	48	–	(135)	5	9
Accrued interest in investment income in the income statement	–	49	–	–	–	49
Purchases	94	554	40	2 921	30	3 639
Sales	(158)	(765)	(20)	(2 571)	(19)	(3 533)
Settlements	–	(536)	–	–	–	(536)
Transfers into level 3[1]	205	76	28	155	147	611
Transfers out of level 3	(117)	(7)	–	(85)	–	(209)
Closing balance	321	1 216	48	2 095	163	3 843

The amount of total gains and losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R128 million for the Group.

[1] The transfer into level 3 equity securities and unit-linked investments relates mainly to assets with stale prices in the current year.

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

	Designated at fair value through income				
2018	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked invest-ments Rm**	**Held for trading derivative investment Rm**	**Total Rm**
Opening balance	241	1 645	2 793	4	4 683
Transfer from other asset classes	–	–	138	–	138
Total (losses)/gains in net realised and fair value gains in the income statement					
Realised (losses)/gains	(3)	35	869	–	901
Unrealised (losses)/gains	(13)	14	45	–	46
Accrued interest in investment income in the income statement	–	12	–	–	12
Total gains in other comprehensive income	2	–	–	–	2
Purchases	96	786	1 025	–	1 907
Sales	(132)	(803)	(3 236)	–	(4 171)
Settlements	–	(160)	–	–	(160)
Transfers into level 3[1]	70	404	97	–	571
Transfers out of level 3	(23)	(125)	–	(4)	(152)
Closing balance	238	1 808	1 731	–	3 777

The amount of total gains and losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the prior year is R100 million for the Group.

[1] The transfer into level 3 debt securities relates mainly to assets where certain unobserved input are now considered to be significant and assets with stale prices in the prior year.

6 Financial assets *continued*

6.8 Financial assets hierarchy *continued*

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

2019	At fair value through income Debt securities Rm	Unit-linked investments Rm
Carrying amount	**1 216**	**2 095**
Assumption change	**1% increase/ (decrease) in interest rate**	**10% increase/ (decrease) in unit price**
Effect of increase in assumption	**(6)**	**210**
Effect of decrease in assumption	**8**	**(210)**

2018	Designated at fair value through income Debt securities Rm	Unit-linked investments Rm
Carrying amount	1 808	1 731
Assumption change	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price
Effect of increase in assumption	40	173
Effect of decrease in assumption	(36)	(173)

6 Financial assets *continued*

6.8 Financial assets hierarchy *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:

	2019 Carrying amount Rm	2019 Fair value Rm	2018 Carrying amount Rm	2018 Fair value Rm
Held-to-maturity financial assets	**–**	**–**	437	437
Financial assets at amortised cost (2018: Loans and receivables)	**16 864**	**16 864**	5 433	5 433
Debt securities	**387**	**387**	–	–
Funds on deposit and other money market instruments	**78**	**78**	–	–
Accounts receivable (excluding prepayments)	**2 245**	**2 245**	2 138	2 138
Unsettled trades	**11 565**	**11 565**	602	602
Loans	**2 589**	**2 589**	2 693	2 693
Insurance and other receivables (excluding accelerated rental income)	**4 964**	**4 964**	4 710	4 710
Cash and cash equivalents	**27 147**	**27 147**	25 812	25 812
	48 975	**48 975**	36 392	36 392

Calculation of fair value

- For accounts receivables, unsettled trades, insurance and other receivables and cash and cash equivalents, the carrying amount approximates fair value due to their short-term nature.
- The fair value of the loan to empowerment partners of R263 million (2018: R263 million) equals the carrying amount as it is expected to be repaid by 31 December 2020. For 2019, the expected cash flows were discounted at 8.8%.
- For policy loans, the fair value of R1 300 million (2018: R1 402 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 9.3% (2018: 9.6%).
- For the remainder of the loans, the carrying amount approximates fair value due to their short-term nature.
- The fair values in the table above are level 2.

6 Financial assets *continued*

6.9 Financial assets measurement

Financial assets summarised by measurement category in terms of IFRS 9[1]	Fair value through income Mandatorily Rm	Designated[2] Rm	Total fair value Rm	Amortised cost Rm	Other measurement basis Rm	Total Rm
2019						
Equity securities[3]	97 785	–	97 785	–	–	97 785
Debt securities	32 822	94 858	127 680	387	–	128 067
Funds on deposit and other money market instruments	13 164	15 543	28 707	78	–	28 785
Unit-linked investments	146 921	–	146 921	–	–	146 921
Investments in associates at fair value through income	18 314	–	18 314	–	–	18 314
Derivative financial assets	2 449	–	2 449	–	–	2 449
Financial assets at amortised cost (excluding prepayments)	–	–	–	16 399	–	16 399
Insurance and other receivables (excluding accelerated rental)	–	–	–	–	4 964	4 964
Cash and cash equivalents	–	–	–	27 147	–	27 147
Total financial assets	311 455	110 401	421 856	44 011	4 964	470 831

1 Comparative information not required in terms of IFRS 9.
2 Assets designated at fair value mainly consists of policyholder assets which back policyholder liabilities which are carried at fair value through income. The amount of change, during the period and cumulatively, in the fair value of financial assets designated at fair value through income that is attributable to changes in the credit risk of the financial asset is determined as the change triggered by factors other than changes in the benchmark rate. The impact of the changes in credit risk for the current and prior year was immaterial.
3 Equity securities are classified as fair value through income at inception.

Business model assessment

The Group's financial asset classification is determined based on the contractual cash flows characteristics and models through which financial instruments are managed (business model). The Group has a number of subsidiaries which range from life companies, non-life companies and collective investment schemes which are consolidated. The level at which the business model assessment is done is determined by the Group and is on a portfolio level.

6 Financial assets *continued*

6.9 Financial assets measurement *continued*

Life insurance companies

Financial assets mandatorily at fair vale through income

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

Financial assets designated at fair value through income

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

- Certain policyholder fixed income assets follow an enhanced immunisation strategy which implies that while the inherent risk is well managed the cash flows would not be strictly matched. The strategy therefore involves buying and selling securities to keep the risk within risk limits and to meet contractual liability flows.
- Other policyholder fixed income assets are managed in accordance with an Investment Management Agreement (IMA) that does not allow fund mangers to enter into activities which are deemed to be speculative or profit-taking in nature. These fixed income instruments are purchased with the intent of achieving stated investment return objectives through capital return and interest income. Portfolio mangers sell these assets from time to time to honour contractual liabilities or to manage inherent market risk factors.

Other companies

The rest of the Group's operating activities include non-life, health and asset management services. The business model assessments on the financial assets were done within the individual entities, using Group methodology.

Consolidated collective investment schemes

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

Impairment

The impairment of financial assets is based on assumptions about risk of default and expected loss rates, which include the estimation of future cash flows and the significant increase in credit risk. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculations, based on the Group's history, existing market conditions, as well as forward-looking estimates at the end of each reporting period. Refer to note 6.4 for more details.

	ACC POLICY Annex D10	2019 Rm	2018 Rm
7	**Reinsurance contract assets**		
	Reinsurance asset relating to long-term insurance	**2 355**	2 247
	Reinsurance asset relating to cell captive business	**2 709**	2 012
	Prepaid reinsurance	**848**	730
		5 912	4 989
	Balance at beginning	**4 989**	4 495
	Movement charged to income statement	**377**	322
	Attributable to non-cell captive business	**226**	265
	Attributable to cell captive business	**151**	57
	Business combinations (refer to note 29)	**–**	16
	Cell captive premiums	**17**	27
	First-party cell captives	**447**	(208)
	Third-party cell captives	**38**	300
	Transfer to non-current assets held for sale	**(21)**	–
	Other	**63**	26
	Exchange differences	**2**	11
	Balance at end	**5 912**	4 989
	Current	**4 880**	3 976
	Non-current	**1 032**	1 013
		5 912	4 989

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

Amounts due from reinsurers in respect of claims incurred by the Group on contracts that are reinsured are included in insurance and other receivables. Refer to note 6.5.

ACC POLICY
Annex D10

	2019 Rm	2018 Rm
8 Insurance contracts		
8.1 Long-term insurance contracts		
8.1.1 Long-term insurance contract liabilities	**114 760**	107 749
8.1.2 Liabilities to third-party cell captive owners	**1 406**	1 445
	116 166	109 194
Open-ended	**22 061**	18 884
Current	**12 943**	13 248
Non-current	**81 162**	77 062
	116 166	109 194
Movement in long-term insurance contracts		
8.1.1 Long-term insurance contract liabilities		
Balance at beginning	**107 749**	104 962
Transfer to policyholder liabilities under insurance contracts	**7 367**	2 754
Increase in retrospective liabilities	**713**	1 770
Unwind of discount rate	**4 269**	3 243
Expected release of margins	**(3 238)**	(3 127)
Expected cash flows	**(3 826)**	(3 987)
Change in economic assumptions	**(191)**	9
Change in non-economic assumptions	**259**	733
New business	**8 600**	3 224
Experience variances	**950**	982
Other	**(169)**	(93)
Sale of business	**(246)**	–
Revaluation liability	**11**	–
Transfer to non-current liabilities held for sale	**(136)**	–
Other	**11**	(31)
Exchange differences	**4**	64
Balance at end	**114 760**	107 749
8.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	**1 445**	1 605
Charge to the income statement	**(1 085)**	(1 142)
Net cash flows	**5 189**	5 035
Changes in share capital, dividends and other items relating to cell captives[1]	**(4 143)**	(4 053)
Balance at end	**1 406**	1 445

[1] Relates mainly to cell captive expenses like binder fees, administration fees and commission as well as dividends paid to cell owners.

ACC POLICY
Annex D10

		2019 Rm	2018 Rm
8	**Insurance contracts** *continued*		
8.2	**Non-life insurance contracts**		
8.2.1	***Unearned premium provision***	**4 261**	4 079
8.2.2	***Outstanding claims***	**2 777**	2 200
8.2.3	***Liabilities to third-party cell captive owners***	**2 565**	2 449
	Total	**9 603**	8 728
	Open-ended	**3 075**	2 480
	Current	**4 197**	4 301
	Non-current	**2 331**	1 947
		9 603	8 728
	Movement in non-life insurance contracts		
8.2.1	***Unearned premium provision***		
	Balance at beginning	**4 079**	3 737
	Business combinations (refer to note 29)	**–**	12
	Movement in unearned premium provision		
	Premium income received	**3 863**	3 421
	Recognition of premium income	**(3 690)**	(3 105)
	Exchange differences	**9**	14
	Balance at end	**4 261**	4 079
8.2.2	***Outstanding claims***		
	Balance at beginning	**2 200**	1 844
	Business combinations (refer to note 29)	**–**	10
	Increase in outstanding claims	**580**	198
	Other	**(8)**	128
	Exchange differences	**5**	20
	Balance at end	**2 777**	2 200
8.2.3	***Liabilities to third-party cell captive owners***		
	Balance at beginning	**2 449**	2 080
	Charge to the income statement	**117**	(71)
	Cell tax	**(269)**	(270)
	Net fair value gains on assets at fair value through income	**386**	199
	Cell captive income	**1 123**	535
	Net cash flows	**157**	593
	Dividends paid	**(1 291)**	(716)
	Other	**–**	12
	Exchange differences	**10**	16
	Balance at end	**2 565**	2 449

Refer to note 10 for the assumptions and estimates used.

Notes to the financial statements continued

For the year ended 30 June 2019

ACC POLICY
Annex D10

		2019 Rm	2018 Rm
9	**Investment contracts**		
9.1	**Investment contracts with DPF**	**23 800**	24 550
9.2	**Investment contracts designated at fair value through income**	**251 053**	247 861
9.2.1	***Investment contract liabilities designated at fair value through income***	**241 511**	238 754
9.2.2	***Liabilities to first-party cell captive owners***	**9 542**	9 107
	Total investment contract liability	**274 853**	272 411
	Movement in investment contracts with DPF		
9.1	**Investment contracts with DPF**		
	Balance at beginning	**24 550**	24 338
	Transfer to policyholder liabilities under investment contracts with DPF	**(588)**	285
	(Decrease)/Increase in retrospective liabilities	**(741)**	260
	Unwind of discount rate	**3**	(2)
	Expected release of margins	**(125)**	(116)
	Expected cash flows	**(86)**	(131)
	Change in economic assumptions	**(3)**	(1)
	Change in non-economic assumptions	**154**	21
	New business	**306**	339
	Experience variances	**(96)**	(85)
	Transfer to non-current liabilities held for sale	**(173)**	–
	Other	**10**	(73)
	Exchange differences	**1**	–
	Balance at end	**23 800**	24 550
	Open-ended	**19 489**	19 923
	Current	**681**	727
	Non-current	**3 630**	3 900
		23 800	24 550

ACC POLICY
Annex D10

	2019 Rm	2018 Rm
9 Investment contracts *continued*		
Movement in investment contracts designated at fair value through income		
9.2 Investment contracts designated at fair value through income		
9.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	**238 754**	224 801
Contract holder movements	**2 941**	13 855
Deposits received	**34 372**	33 327
Contract benefit payments	**(37 719)**	(34 665)
Fees on investment contracts	**(2 601)**	(2 135)
Fair value adjustment to policyholder liabilities under investment contracts	**8 956**	17 352
Changes in share capital, dividends and other items relating to cell captives	**(67)**	(24)
Transfer to non-current liabilities held for sale	**(224)**	–
Other	**–**	30
Exchange differences	**40**	68
Balance at end	**241 511**	238 754
9.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	**9 107**	8 633
Contract holder movements	**430**	289
Deposits received	**1 720**	2 032
Contract benefit payments	**(1 444)**	(1 524)
Fees on investment contracts	**(81)**	(83)
Fair value adjustment to policyholder liabilities under investment contracts	**151**	203
Cell captive income	**(162)**	(276)
Changes in share capital, dividends and other items relating to cell captives	**246**	(63)
Exchange differences	**5**	185
Balance at end	**9 542**	9 107
Open-ended	**128 814**	128 593
Current	**7 124**	7 311
Non-current	**115 115**	111 957
	251 053	247 861

The instruments in note 9.2 would have been classified as financial liabilities at amortised cost under IFRS 9 had they not been designated at fair value through income.

For the IFRS 7 disclosures relating to investment contracts, refer to note 11.4.

Refer to note 10 for the assumptions and estimates used.

Notes to the financial statements continued

For the year ended 30 June 2019

10 Contract holder liabilities – assumptions and estimates

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the FSV method as described in the actuarial guidance note SAP 104 of ASSA – Calculation of the value of the assets, liabilities and solvency capital requirement of long-term insurers. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies in Annexure D para 10.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by SAP 104.
- Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty or for the prudent release of profit.

The liabilities at 30 June 2019 would have been R9 680 million (2018: R12 892 million) higher for the Group without the discretionary margins. This impact is shown gross of transfer tax.

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

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2018 for Momentum Metropolitan Life Ltd retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period ended December 2018 for Momentum Metropolitan Life Ltd retail businesses.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2011 to 2016 for Metropolitan Retail business.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ended 31 December 2018. The Momentum Investments annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2018. Mortality assumptions for employee benefits contracts within the Momentum Corporate segment are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period ended December 2018. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations on retail contracts are done regularly, the most recent being in respect of the period ended December 2018 for Momentum Life. For Metropolitan Retail exposure is extremely low and morbidity rates are derived through collaboration with reinsurers.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the Momentum Corporate segment, disability claim recovery probabilities are modelled using the group long-term disability table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for the Group's own experience. The most recent investigation was in respect of the period ended October 2018.

10 Contract holder liabilities – assumptions and estimates *continued*

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for Momentum Metropolitan Life Ltd retail business, the most recent being in respect of the period ended November 2018 for Metropolitan Retail business and December 2018 for Momentum Life Investments business.
- Surrender investigations are performed at least annually for Momentum Metropolitan Life Ltd retail business, the most recent being in respect of the period ended February 2019 for Metropolitan Retail business and December 2018 for Momentum Life Investments business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

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

- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2020 financial year and allows for escalation at the assumed expense inflation rate.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns and inflation

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate +3.5% (2018: +3.5%)
  - Property rate: gilt rate +1.0% (2018: +1.0%)
  - Corporate bonds: gilt rate +0.5% (2018: +0.5%)
  - Cash rate: gilt rate -1.0% (2018: -1.0%)
- An inflation rate of 5.8% p.a. for ZAR-denominated retail business is used to project future renewal expenses over the planning horizon (three years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An addition to the expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off. For Momentum Corporate a fixed real return of 2.4% is projected.
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2019	2018
RDR	**11.5%**	11.8%
Gilt rate – risk-free investment return	**9.3%**	9.5%
Assumed investment return for individual smoothed bonus business	**11.5%**	11.7%
Renewal expense inflation rate	**5.8%**	6.5%

10 Contract holder liabilities – assumptions and estimates *continued*

Future bonuses

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

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2019. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

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

Year	1	2	3	4	5	10	15	20	25	30	35	40
2019	**6.3**	**6.7**	**7.0**	**7.4**	**7.8**	**9.3**	**10.4**	**10.9**	**11.0**	**11.0**	**10.8**	**10.6**
2018	7.1	7.6	8.0	8.3	8.6	9.6	10.1	10.4	10.6	10.6	10.5	10.4

10 Contract holder liabilities – assumptions and estimates *continued*

Investment guarantees (APN 110) *continued*

The following instruments have been valued by the model:

Instrument	2019 Price (% of nominal)	2019 Volatility	2018 Price (% of nominal)	2018 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.1%**	**16.9%**	5.5%	18.9%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**1.0%**	**21.2%**	1.2%	22.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0388 (2018: 1.0388)	**6.3%**	**16.2%**	7.0%	18.1%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.3%**	**18.3%**	5.7%	20.9%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**10.9%**	**17.2%**	10.9%	19.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.3416 (2018: 1.3416)	**13.2%**	**16.9%**	14.9%	18.9%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**0.6%**	**22.0%**	1.2%	25.3%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**4.3%**	**21.6%**	6.6%	24.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 4.5263 (2018: 4.5263)	**22.9%**	**21.5%**	25.2%	23.8%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	**4.9%**	**11.0%**	4.7%	12.4%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	**0.3%**	**N/A**	0.3%	N/A

Tax

- Future tax on investment returns is allowed for, according to current four-fund tax legislation, by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

10 Contract holder liabilities – assumptions and estimates *continued*

Basis and other changes

Assumptions and methodologies used in the FSV basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur. An exception to this is the impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business, which is transferred to investment stabilisation liabilities.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2019 by R155 million (2018: R571 million) for the Group. The major contributors to this change were as follows:
  - Actuarial methodology changes and corrections (other changes) – negative R110 million (2018: positive R605 million).
  - Experience basis changes – negative R124 million (2018: negative R1 174 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – positive R79 million (2018: negative R2 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.

Sensitivity analysis

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

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

2019	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)	60 889	59 414	59 851	61 366	57 868	62 019
Annuities (retail and employee benefits)	49 853	49 681	49 710	49 850	50 425	52 459
Employee benefits business (excluding annuities)	2 840	2 830	2 839	2 840	2 838	2 938
Investment with DPF business	23 800	23 795	23 802	23 806	23 755	23 986
Investment business	239 795	239 776	239 788	239 799	239 799	242 150
Subtotal	377 177	375 496	375 990	377 661	374 685	383 552
Cell captive and non-life business	23 459					
Total	400 636	375 496	375 990	377 661	374 685	383 552

10 Contract holder liabilities – assumptions and estimates *continued*

Sensitivity analysis *continued*

2018	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	61 618	60 283	60 741	62 084	58 970	62 513
Annuities (retail and employee benefits)	42 501	42 327	42 360	42 500	43 061	44 577
Employee benefits business (excluding annuities)	2 652	2 634	2 651	2 652	2 644	2 699
Investment with DPF business	24 550	24 534	24 541	24 547	24 543	24 772
Investment business	238 640	238 614	238 627	238 644	238 651	240 740
Subtotal	369 961	368 392	368 920	370 427	367 869	375 301
Cell captive and non-life business	20 381					
Total	390 342	368 392	368 920	370 427	367 869	375 301

The impact of the reduction in the assumed investment return includes the consequent change in projected bonus rates, discount rates and the assumed level of renewal expense inflation.

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

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities; for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2018: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R124 million (2018: R131 million) in the before-tax earnings of the Group.

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

Notes to the financial statements continued

For the year ended 30 June 2019

ACC POLICY
Annex D11 and 22

11 Financial liabilities

The Group classifies its financial liabilities into the following categories:

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

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

		2019 Rm	2018 Rm
	The Group's financial liabilities are summarised below:		
11.1	**Financial liabilities at fair value through income**	**40 753**	38 217
	Derivative financial liabilities at fair value through income (refer to note 6.3)	**2 318**	2 255
11.2	**Financial liabilities at amortised cost**	**3 007**	2 420
11.3	**Other payables (excluding premiums paid in advance and deferred revenue liability)**	**23 487**	12 822
		69 565	55 714

		2019 Rm	2018 Rm
11.1	**Financial liabilities at fair value through income**		
	Collective investment scheme liabilities	**29 596**	28 441
	Subordinated call notes	**4 431**	4 374
	Carry positions	**6 613**	4 272
	Preference shares[1]	**–**	1 020
	Other borrowings	**113**	110
		40 753	38 217
	Current	**37 073**	33 620
	Non-current	**3 680**	4 597
		40 753	38 217

[1] Preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9, this liability was reclassified to amortised cost.

- Change in the fair value of financial liabilities designated at fair value through income due to own credit risk was immaterial for the current year.
- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the Group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the FSCA granted approval for Momentum Metropolitan Life Ltd to raise debt issuances. Momentum Metropolitan Life Ltd has sufficient cash to cover the debt. Refer to note 35 for more detail. (*cash flow interest rate risk*)
- Carry positions (secured) – this relates to a carry position reported by the Group that represents a sale and repurchase of assets in specific group annuity portfolios. These carry positions are secured by government stock with a value of R6 676 million (2018: R4 273 million). Offsetting has not been applied. *(fair value interest rate risk)*

11 Financial liabilities *continued*

11.1 Financial liabilities at fair value through income *continued*

- Other – non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to EV. In terms of IFRS, the Group has recognised a financial liability of R86 million (2018: R71 million), being the present value of the estimated purchase price, for exercising this option. The Group has consolidated 96% of the subsidiaries' results. *(no interest rate risk)*
- These instruments, excluding 'Other borrowings', would have been disclosed as at amortised cost or fair value through other comprehensive income under IFRS 9 had they not been designated at fair value through income in the current year. In the prior year, these instruments would have been disclosed as 'Other payables' under IAS 39 had they not been designated at fair value through income.

	2019 Rm	2018 Rm
11.2 Financial liabilities at amortised cost		
Cumulative redeemable convertible preference shares	**254**	254
Property development loans	**1 322**	2 053
Cumulative redeemable preference shares[1]	**1 017**	–
Other	**414**	113
	3 007	2 420
Current	**202**	1 333
Non-current	**2 805**	1 087
	3 007	2 420

[1] Cumulative redeemable preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9, this liability was reclassified to amortised cost.

11.2.1 Cumulative redeemable convertible preference shares

Momentum Metropolitan Holdings Ltd had 28 060 898 A3 cumulative convertible redeemable preference shares in issue (to KTH, the Group's strategic BEE partner) at the beginning of the year. Dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redemption date of 31 December 2020 (after extending it by 18 months in the current year). In the prior year, on 2 October 2017, 1 million preference shares were converted into ordinary shares. The shares were originally issued at a price of R10.18 per share. Dividends are payable on the remaining preference shares at 132 cents per annum. During the current year, Momentum Metropolitan Holdings Ltd subscribed for a cumulative, redeemable preference shares in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) which is linked to the A3 preference shares acquired in 2011. The dividends on the Off The Shelf Investments preference share aligns the A3 preference shares dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payment BEE expense of R23 million has been recognised. The extension was treated as a renegotiation of the original contract. The change in the liability to the present value of the additional cash flow resulting from the extension was not considered material. (*no interest rate risk*)

The equity component of the preference shares is included in note 16.6.

11 Financial liabilities *continued*

11.2 Financial liabilities at amortised cost *continued*

11.2.2 Property development loans

Included in property development loans are:

- A R811 million (2018: R1 311 million) loan from Standard Bank Ltd in order to develop property held by a subsidiary, 129 Rivonia Road (Pty) Ltd. Interest on the loan is levied at three-month JIBAR plus 2.10%. The loan is secured by the underlying property. (cash flow interest rate risk)
- A R267 million (2018: R486 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at 11%. The loan is secured by the underlying property. (fair value interest rate risk)
- A R191 million (2018: R194 million) loan from Standard Bank Ltd in order to develop property held by a subsidiary, Momentum Metropolitan Umhlanga (Pty) Ltd. Interest on the loan is levied at JIBAR plus 1.90%. The loan is secured by the underlying property. (cash flow interest rate risk)

11.2.3 Cumulative redeemable preference shares

On 26 June 2014, Momentum Metropolitan Strategic Investments (Pty) Ltd issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd. The declaration of preference dividends is calculated at 72% of JIBAR plus 180 basis points with a redemption date of 28 June 2020. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date. (cash flow interest rate risk)

	2019 Rm	2018 Rm
11.3 Other payables		
Payables arising from insurance contracts and investment contracts with DPF	5 829	5 762
Claims in process of settlement		
Insurance contracts	3 603	3 417
Investment contracts with DPF	1 159	1 103
Due to reinsurers	1 067	1 242
Payables arising from investment contracts	1 081	981
Financial instruments	16 577	6 079
Unsettled trades	11 119	606
Commission creditors	983	941
Health saver liability	265	266
Other payables	4 210	4 266
Total included in financial liabilities	23 481	12 822
Deferred revenue liability[1]	529	481
Premiums paid in advance	1 048	1 001
Total other payables	25 064	14 304
Current	23 757	13 050
Non-current	1 307	1 254
	25 064	14 304
Reconciliation of deferred revenue liability		
Balance at beginning of year	481	482
Deferred income relating to new business	57	165
Amount recognised in income statement	(9)	(166)
Balance at end of year	529	481

[1] The deferred revenue liability balance at 30 June 2019 will be recognised as revenue as follows: R309 million (within 1 year), R63 million (between 1 – 5 years), R118 million (between 5 – 10 years) and R39 million (after 10 years). Refer to accounting policy note 23.1.

11 Financial liabilities *continued*

11.4 Financial liabilities hierarchy

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

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

2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	1 365	249 659	29	251 053
Financial liabilities at fair value through income	29 533	11 049	171	40 753
Collective investment scheme liabilities	29 533	–	63	29 596
Subordinated call notes	–	4 431	–	4 431
Carry positions	–	6 613	–	6 613
Other borrowings	–	5	108	113
Derivative financial instruments – held for trading	–	2 318	–	2 318
	30 898	263 026	200	294 124

2018	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	1 298	246 538	25	247 861
Financial liabilities designated at fair value through income	28 347	9 674	196	38 217
Collective investment scheme liabilities	28 347	8	86	28 441
Subordinated call notes	–	4 374	–	4 374
Carry positions	–	4 272	–	4 272
Preference shares[1]	–	1 020	–	1 020
Other borrowings	–	–	110	110
Derivative financial instruments – held for trading	131	2 124	–	2 255
	29 776	258 336	221	288 333

1 Preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9, this liability was reclassified to amortised cost.

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

11 Financial liabilities *continued*

11.4 Financial liabilities hierarchy *continued*

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

2019	At fair value through income Investment contracts Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
Opening balance	25	86	110	221
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised gains	–	(6)	–	(6)
Unrealised losses	3	2	15	20
Issues	–	19	–	19
Sales	–	(26)	–	(26)
Settlements	–	(12)	(17)	(29)
Contract holder movements				
Investment return	1	–	–	1
Closing balance	29	63	108	200

2018	Designated at fair value through income Investment contracts Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
Opening balance	35	206	74	315
Business combinations (refer to note 29)	–	–	26	26
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	–	3	–	3
Unrealised losses/(gains)	2	(83)	10	(71)
Issues	–	2	–	2
Sales	–	(42)	–	(42)
Contract holder movements				
Benefits paid	(12)	–	–	(12)
Closing balance	25	86	110	221

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying amount of level 3 financial instrument liabilities by R36 million and R36 million (2018: R15 million and R15 million), respectively.

11 Financial liabilities *continued*

11.4 Financial liabilities hierarchy *continued*

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

	2019 Carrying value Rm	2019 Fair value Rm	2018 Carrying value Rm	2018 Fair value Rm
Investment contracts with DPF	**23 800**	**23 800**	24 550	24 550
Amortised cost	**3 007**	**3 301**	2 420	2 680
Cumulative redeemable convertible preference shares	**254**	**548**	254	514
Cumulative redeemable preference shares[1]	**1 017**	**1 017**	–	–
Other	**1 736**	**1 736**	2 166	2 166
Financial liabilities at fair value through income	**23 487**	**23 487**	12 822	12 823
Payables arising from investment contracts	**1 081**	**1 081**	981	982
Other payables	**22 406**	**22 406**	11 841	11 841
	50 294	**50 588**	39 792	40 053

[1] Cumulative redeemable preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9, this liability was reclassified to amortised cost.

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which has been used as an approximation for the fair value of this financial liability, as the fair value cannot be measured reliably. There is no intention to dispose of these financial instruments.
- The estimated fair value of the cumulative redeemable convertible preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2019, the expected cash flows were discounted at a current market rate of 12% (2018: 12%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. *(level 2)*
- The estimated fair value of the cumulative redeemable preference shares is determined by referencing similar preference shares that could be obtained with the same maturity profile and an interest rate linked to a 72% three-month JIBAR. The carrying amount approximates fair value due to the redemption date being 28 June 2020. *(level 2)*
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying amount approximates fair value due to their short-term nature.

11 **Financial liabilities** *continued*

11.5 **Financial liabilities measurement**

Financial liabilities summarised by measurement category in terms of IFRS 9[1]	Fair value through income Mandatorily Rm	Designated Rm	Total fair value Rm	Amortised cost Rm	Other measurement basis Rm	Total Rm
2019						
Investment contracts with DPF	–	–	–	–	23 800	23 800
Investment contracts designated at fair value through income	–	251 053	251 053	–	–	251 053
Derivative financial instruments	2 318	–	2 318	–	–	2 318
Collective investment scheme liabilities	–	29 596	29 596	–	–	29 596
Subordinated call notes	–	4 431	4 431	–	–	4 431
Carry positions	–	6 613	6 613	–	–	6 613
Borrowings	–	–	–	3 007	–	3 007
Other payables (excluding premiums in advance and deferred revenue liability)	–	–	–	17 658	5 829	23 487
Other liabilities	108	5	113	–	–	113
Total financial liabilities	2 426	291 698	294 124	20 665	29 629	344 418

1 Comparative information not required in terms of IFRS 9.

		2019 Rm	2018 Rm
12	**Reinsurance contract liabilities** ACC POLICY Annex D10		
	Balance at beginning	**1 685**	1 368
	Business combinations (refer to note 29)	**–**	11
	Change in liabilities under reinsurance agreements	**246**	290
	New financial reinsurance agreements	**543**	588
	Repayments	**(274)**	(407)
	Change in estimates	**(23)**	109
	Reinsurance ceded	**(19)**	16
	Balance at end	**1 912**	1 685
	Current	**301**	280
	Non-current	**1 611**	1 405
		1 912	1 685

The reinsurance liability relates to a financial reinsurance agreement with registered reinsurers, whereby the reinsurer provided upfront funding to cells within Guardrisk. The cells then repay this funding over an agreed term. The liability associated with this repayment is disclosed above.

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

Notes to the financial statements continued

For the year ended 30 June 2019

ACC POLICY
Annex D12

		2019 Rm	2018 Rm
13	**Deferred income tax**		
	Deferred tax asset	**599**	290
	Deferred tax liability	**(3 222)**	(2 874)
		(2 623)	(2 584)
	Deferred tax is made up as follows:		
	Accruals and provisions	**132**	86
	Accelerated wear and tear	**(117)**	(98)
	Revaluations	**(590)**	(634)
	Deferred tax on intangible assets as a result of past business combinations	**(1 662)**	(1 918)
	Deferred revenue liability	**13**	157
	Difference between published and statutory policyholder liabilities	**3**	960
	Tax losses	**374**	622
	Negative rand reserves	**(658)**	(991)
	Deferred acquisition costs	**(18)**	(597)
	Other	**(100)**	(171)
		(2 623)	(2 584)
	Current	**71**	278
	Non-current	**(2 694)**	(2 862)
		(2 623)	(2 584)
	Movement in deferred tax		
	Balance at beginning	**(2 584)**	(2 949)
	Charge to the income statement	**(3)**	310
	Accruals and provisions	**46**	(3)
	Accelerated wear and tear	**(18)**	(17)
	Revaluations	**(11)**	148
	Deferred tax movement on intangible assets as a result of past business combinations	**257**	220
	Deferred revenue liability	**(144)**	(2)
	Difference between published and statutory policyholder liabilities	**(958)**	(14)
	Tax losses	**(248)**	249
	Negative rand reserves	**333**	(201)
	Deferred acquisition costs	**579**	21
	Other	**161**	(91)
	Charge to other comprehensive income (refer to note 16)	**60**	(1)
	Other	**(96)**	56
	Balance at end	**(2 623)**	(2 584)
	Deferred tax asset on available tax losses and credits not provided for	**794**	483

13 Deferred income tax *continued*

Creation of deferred tax assets and recognition of deferred tax liabilities

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

Included in the deferred tax asset of R374 million (2018: R622 million) raised due to tax losses, is a deferred tax asset of R44 million (2018: R151 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the Group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R1 381 million (2018: R823 million) relating to the unremitted earnings of international subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements

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

Notes to the financial statements continued

For the year ended 30 June 2019

ACC POLICY
Annex D18

	2019 Rm	2018 Rm
14 Employee benefit obligations		
14.1 Employee benefit obligations		
14.1.1 Post-retirement medical benefits	**164**	169
14.1.2 Cash-settled arrangements	**358**	333
Other employee benefit obligations	**817**	651
Total employee benefit obligations	**1 339**	1 153
Current	**982**	929
Non-current	**357**	224
	1 339	1 153

Employee benefit expenses are included in the income statement. Refer to note 23.

	2019 Rm	2018 Rm
14.1.1 Post-retirement medical benefits		
Balance at beginning – unfunded	**169**	234
Current service costs	**1**	2
Past service cost	**–**	8
Interest expense	**15**	16
Actuarial gains – other comprehensive income	**(14)**	(20)
Settlements	**–**	(59)
Benefits paid and transferred	**(7)**	(12)
Balance at end – unfunded	**164**	169
Current	**13**	13
Non-current	**151**	156
	164	169

Valuation methodology

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

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.1 Post-retirement medical benefits *continued*

Valuation methodology *continued*

The key valuation assumptions are:

Assumptions	Base assumption	Change in significant assumption	Change in value of liability: Decrease in significant assumption Rm	Change in value of liability: Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	7% (2018: 8%)	3%	(14)	18
Valuation rate of interest/discount rate	9% (2018: 9%)			
Administration fee inflation	6% (2018: 7%)			
Normal retirement age	60–62 years			
Mortality				
Pre-retirement	SA 72–77 ultimate, with female rates equal to 70% of male rates			
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years			

The weighted average duration of the post-retirement medical benefits obligation is 11.0 years (2018: 11.3 years).

	2019 Rm	2018 Rm
14.1.2 Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	333	425
Additional provisions	122	120
Benefits paid	(97)	(213)
Exchange differences	–	1
Balance at end	358	333
Current	197	155
Non-current	161	178
	358	333

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements *continued*

Momentum Metropolitan share schemes

Subsequent to the merger, the Group started share schemes linked to Momentum Metropolitan Holdings Ltd shares.

Momentum Metropolitan Long-term Incentive Plan (MMH 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 MMH LTIP is to incentivise and retain these key senior staff members. The MMH LTIP comprises three separate long-term incentives, the first being an award of performance units, the second being a grant of retention units, and the third being a grant of deferred bonus units.

The retention units have no imposed performance criteria and therefore vest on vesting date, subject to the employee remaining in the employ of the Group, and not being subject to disciplinary action during the period between the award date and the vesting date.

The performance units have performance criteria based on minimum hurdles related to the return on EV of the Group. The units will therefore vest after a period of three years, and the Group's performance will be averaged over the same period to determine whether the criteria have been met.

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

When the retention units, performance units and deferred bonus units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of a Momentum Metropolitan share (average of 20 trading days before the settlement date).

Momentum Sales Phantom Shares (MSPS)

In November 2013, Momentum Sales issued phantom shares to sales staff. Allocations made will vest in three equal tranches on the third, fourth and fifth anniversary, after the grant date. When the shares vest, the Group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the Group and therefore the scheme is cash-settled.

Momentum Metropolitan Outperformance Plan (MMH OP)

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

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

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements *continued*

Momentum Metropolitan share schemes *continued*

Momentum Metropolitan Share Appreciation Rights Scheme (MMH SAR)

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

	MMH LTIP				MMH OP		
	Retention units '000	Performance units '000	Deferred bonus units '000	MSPS '000	Retention units '000	Performance units '000	MMH SAR '000
Units in force at 1 July 2017	19 561	22 585	–	6 139	214	10 163	–
Units granted during year	14 897	19 652	–	1 172	11	535	–
Units exercised/ released during year	(5 690)	(5 208)	–	(1 204)	–	–	–
Units cancelled/ lapsed during year	(3 005)	(5 165)	–	(558)	–	(3 600)	–
Units in force at 1 July 2018	**25 763**	**31 864**	**–**	**5 549**	**225**	**7 098**	**–**
Units granted during year	**624**	**690**	**9 751**	**708**	**5**	**36**	**25 773**
Units exercised/ released during year	**(5 762)**	**–**	**(92)**	**(1 447)**	**–**	**–**	**–**
Units cancelled/ lapsed during year	**(2 632)**	**(11 484)**	**(656)**	**(414)**	**–**	**(5 498)**	**(2 799)**
Units in force at 30 June 2019	**17 993**	**21 071**	**9 003**	**4 396**	**230**	**1 636**	**22 974**

14 Employee benefit obligations *continued*

14.1 Employee benefit obligations *continued*

14.1.2 Cash-settled arrangements continued

Market value of range at date of exercise/release

	2019 Cents	2018 Cents
MMH LTIP		
Retention units	**1 602 – 1 810**	1 847 – 2 235
Deferred bonus units	**1 700 – 1 810**	N/A
MSPS	**1 602 – 1 769**	1 876 – 2 262

Units outstanding (by expiry date) for the MMH LTIP, MSPS, MMH OP and MMH SAR at 30 June 2019 are as follows:

	MMH LTIP				MMH OP		
2019	Retention units '000	Performance units '000	Deferred bonus units '000	MSPS '000	Retention units '000	Performance units '000	MMH SAR '000
Financial year 2019/2020	6 394	6 832	3 001	1 393	230	1 636	–
Financial year 2020/2021	11 359	12 735	3 001	1 197	–	–	–
Financial year 2021/2022	240	656	3 001	1 010	–	–	7 658
Financial year 2022/2023	–	424	–	571	–	–	7 658
Financial year 2023/2024	–	424	–	225	–	–	7 658
Total outstanding shares	17 993	21 071	9 003	4 396	230	1 636	22 974

Refer to Annexure F for the valuation assumptions relating to these schemes.

15 Share capital and share premium

ACC POLICY
Annex D20

In December 2010, Metropolitan Holdings Ltd (now Momentum Metropolitan Holdings Ltd) became the legal parent company of Momentum Group Ltd, now Momentum Metropolitan Life Ltd (MML), by acquiring all the shares in MML from FirstRand Ltd. As this was accounted for as a reverse acquisition under IFRS 3 – Business combinations (revised) – the share capital and share premium of the Group in the consolidated financial statements are those of MML. The equity structure in terms of the number of authorised and issued shares in the consolidated financial statements reflects the equity structure of Momentum Metropolitan Holdings Ltd.

In the prior year, the Group had started distributing capital to shareholders by means of repurchasing shares, in lieu of paying a dividend. This has been concluded in the current year.

Authorised share capital of Momentum Metropolitan Holdings Ltd

- 2 billion ordinary shares of 0.0001 cents each.
- 129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Authorised share capital of Momentum Metropolitan Life Ltd

- 225 million ordinary shares of 5 cents each.
- 50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each.
- 4 104 000 convertible, participating, non-voting preference shares of 5 cents each.

15 Share capital and share premium *continued*

Issued share capital

The issued share capital of the Group reflects the issued share capital of Momentum Metropolitan Holdings Ltd.

	2019 Rm	2018 Rm
Balance at beginning	**13 767**	13 746
Decrease in treasury shares held on behalf of contract holders	**60**	14
Increase in treasury shares held by subsidiary for shareholders	**(487)**	–
Conversion of preference shares net of share issue costs	**–**	7
	13 340	13 767
Share capital	**9**	9
Share premium	**13 331**	13 758
	13 340	13 767

Momentum Metropolitan Holdings Ltd ordinary shares	2019 Million	2018 Million
Total ordinary shares in issue	**1 498**	1 529
Treasury shares held on behalf of contract holders	**(14)**	(17)
Treasury shares held by subsidiary for shareholders	**(27)**	–
Basic number of shares in issue	**1 457**	1 512
Convertible redeemable preference shares	**28**	28
Diluted number of shares in issue	**1 485**	1 540
Treasury shares held on behalf of contract holders	**14**	17
Diluted number of shares in issue for diluted normalised headline earnings purposes	**1 499**	1 557

MML had 190 million ordinary shares in issue at 30 June 2019 (2018: 190 million).

Preference shares

Momentum Metropolitan Holdings Ltd had 28 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 16 and the debt component is disclosed under note 11.2. Refer to note 11.2 for more details.

MML has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares are held by Momentum Metropolitan Holdings Ltd and have therefore been eliminated at a group level.

Share buy-back programme

The Group has concluded its share buy-back programme on 29 November 2018. In total 106 million (2018: 47 million) shares (R2 000 million (2018: R971 million) excluding transaction costs) have been bought back at an average price of R18.87. Of the total shares repurchased, 27 million shares (R487 million) are held by a subsidiary of the Group which has been adjusted for in share premium and the balance was cancelled and reverted back to authorised but unissued status.

		2019 Rm	2018 Rm
16	**Other components of equity**		
16.1	**Land and building revaluation reserve**	**619**	732
16.2	**Foreign currency translation reserve**	**(67)**	(97)
16.3	**Non-distributable reserve**	**76**	57
16.4	**Employee benefit revaluation reserve**	**100**	102
16.5	**Fair value adjustment for preference shares issued by Momentum Metropolitan Holdings Ltd**	**940**	940
16.6	**Equity-settled share-based payment arrangements**	**53**	33
		1 721	1 767
	Movements in other reserves		
16.1	**Land and building revaluation reserve** (ACC POLICY Annex D5)		
	Balance at beginning	**732**	807
	Earnings directly attributable to other components of equity	**(86)**	130
	Revaluation	**(146)**	131
	Deferred tax on revaluation	**60**	(1)
	Transfer to retained earnings	**(27)**	(205)
	Balance at end	**619**	732
16.2	**Foreign currency translation reserve** (ACC POLICY Annex D3)		
	Balance at beginning	**(97)**	(98)
	Currency translation differences	**30**	1
	Balance at end	**(67)**	(97)
16.3	**Non-distributable reserve**		
	Balance at beginning	**57**	54
	Transfer from retained earnings	**10**	9
	Other	**9**	(6)
	Balance at end	**76**	57
16.4	**Employee benefit revaluation reserve** (ACC POLICY Annex D18)		
	Balance at beginning	**102**	88
	Remeasurement of post-employment benefit obligations	**1**	14
	Other	**(3)**	–
	Balance at end	**100**	102

Notes to the financial statements continued

For the year ended 30 June 2019

	2019 Rm	2018 Rm
16 Other components of equity *continued*		
16.5 Fair value adjustment for preference shares issued by Momentum Metropolitan Holdings Ltd		
Equity component of preference shares issued	**940**	940

This represents the write-up of the carrying amount of the preference shares issued by Momentum Metropolitan Holdings Ltd to KTH to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.

	2019 Rm	2018 Rm
16.6 Equity-settled share-based payment arrangements		
BEE share-based payment		
Balance at beginning	**33**	(10)
Transferred to retained earnings	**(5)**	–
Share schemes – value of services provided	**25**	43
Balance at end	**53**	33

In the prior year, the Group sold shares in Metropolitan Health Corporate and Providence. The shares were sold at a discount which resulted in a R39 million IFRS 2 charge.

The Company issued A3 preference shares to Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) in 2011. The redemption date was extended by 18 months to 31 December 2020 in the current year.

Also during the current year, the Company subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd which is linked to the A3 preference shares acquired in 2011. The dividends on the Off The Shelf investments preference share aligns the A3 preference shares dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payment BEE expense of R23 million has been recognised.

17 Net insurance premiums

ACC POLICY
Annex D10

	2019 Rm	2018 Rm
Premiums received	**51 974**	42 788
Long-term insurance contracts	**36 340**	29 519
Health premiums	**1 204**	1 082
Investment contracts with DPF	**2 358**	2 189
Non-life insurance contracts	**12 072**	9 998
Premiums received ceded to reinsurers	**(15 356)**	(12 895)
	36 618	29 893

Included in the above is the following relating to cell captives:

	2019 Rm	2018 Rm
Premiums received	**18 686**	16 179
Long-term insurance contracts	**7 834**	7 197
Non-life insurance contracts	**10 852**	8 982
Premiums received ceded to reinsurers	**(12 773)**	(10 357)
	5 913	5 822

ACC POLICY
Annex D23

		2019 Rm	2018 Rm
18	**Fee income**		
	Contract administration	**2 754**	2 384
	Investment contract administration	**2 683**	2 218
	Release of deferred front-end fees	**71**	166
	Trust and fiduciary services	**1 417**	1 506
	Asset management	**882**	861
	Asset administration	**86**	233
	Retirement fund administration	**449**	412
	Health administration	**1 931**	1 780
	Other fee income	**2 347**	1 866
	Administration fees received	**171**	207
	Momentum Multiply fee income	**385**	407
	Cell captive fee income	**1 379**	863
	Other	**412**	389
		8 449	7 536

Revenue disaggregation

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

ACC POLICY
Annex D23

		2019 Rm	2018 Rm
19	**Investment income**		
	At fair value through income		
	Dividend income – listed	**4 188**	3 581
	Dividend income – unlisted	**1 564**	1 000
	Interest income	**14 978**	14 337
	At fair value through income	**13 634**	12 582
	Amortised cost using the effective interest rate method		
	Debt securities	**1**	–
	Funds on deposit and other money market instruments	**84**	–
	Held-to-maturity	**–**	69
	Financial assets at amortised cost (2018: Loans and receivables)	**240**	276
	Cash and cash equivalents	**1 019**	1 410
	Rental income	**1 281**	1 140
	Investment properties	**1 269**	1 128
	Owner-occupied properties	**12**	12
	Other income	**126**	26
		22 137	20 084

ACC POLICY
Annex D6, 7 and 11

	2019 Rm	2018 Rm
20 Net realised and fair value gains		
Financial assets	**1 156**	17 430
At fair value through income	**–**	17 756
Designated at fair value through income[1]	**2 916**	–
Mandatorily at fair value through income[1]	**(2 266)**	–
Derivative financial instruments – income/(losses)	**503**	(373)
Available-for-sale – realised gains	**–**	13
Net realised and unrealised foreign exchange differences on financial instruments not at fair value through income	**3**	34
Financial liabilities	**(69)**	(25)
At fair value through income	**–**	(25)
Designated at fair value through income	**(69)**	–
Investment property	**336**	332
Valuation gains	**331**	337
Change in accelerated rental income	**5**	(5)
Other investments	**16**	49
	1 439	17 786

1 In the prior year, this was included as part of net realised and fair value gains on financial assets at fair value through income. The comparatives have not been restated in line with IFRS 9.

ACC POLICY
Annex D10

	2019 Rm	2018 Rm
21 Net insurance benefits and claims		
Long-term insurance contracts	**23 201**	23 848
Death and disability claims	**11 244**	10 517
Maturity claims	**4 127**	3 902
Annuities	**4 414**	3 855
Surrenders	**2 666**	2 856
Terminations, disinvestments and withdrawal benefits	**750**	2 718
Health and capitation benefits incurred	**948**	942
Non-life insurance benefits incurred	**6 635**	5 275
Non-life insurance change in provision for outstanding claims	**556**	200
Investment contracts with DPF	**3 411**	3 624
Death and disability claims	**105**	95
Maturity claims	**888**	935
Annuities	**143**	154
Surrenders	**413**	534
Terminations, disinvestments and withdrawal benefits	**1 862**	1 906
	34 751	33 889
Amounts recovered from reinsurers	**(8 169)**	(6 657)
	26 582	27 232

Included in the above is R8 448 million (2018: R6 936 million) claims and R5 630 million (2018: R4 522 million) reinsurance relating to cell captives.

	2019 Rm	2018 Rm
22 Depreciation, amortisation and impairment expenses		
ACC POLICY Annex D4, 5 and 7		
Depreciation	**202**	227
Owner-occupied properties (refer to note 3)	**37**	75
Equipment	**165**	152
Amortisation (refer to note 2)	**858**	892
Value of in-force business acquired	**275**	291
Customer relationships	**354**	374
Brands	**58**	60
Broker network	**38**	33
Computer software	**133**	134
Impairment of intangible assets (refer to note 2)	**77**	97
Goodwill	**19**	31
Customer relationships	**52**	–
Computer software	**6**	66
Impairment of owner-occupied properties (refer to note 3)	**66**	–
Impairment of financial assets (refer to note 6.4)	**88**	10
Financial assets at amortised cost (2018: Loans and receivables)	**88**	10
Impairment of non-current assets held for sale (refer to Annexure H)	**30**	–
Impairment of other assets	**22**	–
	1 343	1 226
23 Employee benefit expenses		
ACC POLICY Annex D18		
Salaries	**5 339**	4 620
Contributions to medical aid funds	**207**	184
Defined benefit retirement fund	**3**	7
Defined contribution retirement fund	**344**	306
Post-retirement medical benefits	**12**	24
Retirement fund assets	**(46)**	(32)
Share-based payment expenses – Cash-settled arrangements (refer to note 14.1.2)	**122**	120
Current service costs – International subsidiaries' share schemes	**16**	54
Training costs	**94**	89
Other	**77**	85
	6 168	5 457

For detail of directors' and prescribed officers' remuneration, refer to Annexure F.

	2019 Rm	2018 Rm
24 Sales remuneration (ACC POLICY Annex D10)		
Commission incurred for the acquisition of insurance contracts	**4 732**	4 073
Commission incurred for the acquisition of investment contracts	**1 020**	1 082
Amortisation of deferred acquisition costs (short- and long-term)	**367**	661
Impairment of amounts due from agents, brokers and intermediaries (refer to note 6.4)	**(41)**	(20)
	6 078	5 796
25 Other expenses (ACC POLICY Annex D24)		
Administration fees paid – Binder and outsourcing fees	**8**	13
Asset management fees	**2 852**	3 003
Auditors' remuneration	**109**	119
Audit fees	**94**	109
Fees for other services	**15**	10
Bad debts written off	**77**	35
Bank charges	**104**	101
Consulting fees	**690**	761
Direct property operating expenses on investment property	**500**	491
Information technology expenses	**589**	559
Marketing costs	**391**	381
Momentum Multiply benefit payments	**340**	361
Office costs	**499**	621
Operating lease charges	**190**	94
Other indirect taxes	**364**	328
Policy services	**64**	48
Travel expenses	**249**	205
Other expenses	**389**	659
	7 415	7 779
26 Finance costs (ACC POLICY Annex D24)		
Interest expense on financial liabilities		
Redeemable preference shares	**106**	110
Unsecured subordinated call notes	**418**	397
Cost of carry positions	**286**	363
Other	**211**	178
	1 021	1 048
Designated at fair value through income[1]	**704**	–
Amortised cost[1]	**317**	–
	1 021	–

[1] Comparatives have not been restated in line with IFRS 9.

	2019 Rm	2018 Rm
27 Income tax expense		
Income tax expenses/(credits)		
Current taxation	**3 066**	3 349
Shareholder tax		
South African normal tax – current year	**921**	1 040
South African normal tax – prior year	**7**	(6)
Foreign countries – normal tax	**108**	65
Foreign withholding tax	**107**	129
Contract holder tax		
Tax on contract holder funds – current year	**544**	962
Tax attributable to cell captive owners	**1 379**	1 159
Deferred tax	**3**	(310)
Shareholder tax		
South African normal tax – current year	**72**	(200)
South African normal tax – prior year	**(16)**	2
Foreign countries – normal tax	**(1)**	3
Contract holder tax		
Tax on contract holder funds – current year	**(61)**	(119)
Tax attributable to cell captive owners	**9**	4
	3 069	3 039

ACC POLICY Annex D13

Tax rate reconciliation	2019 %	2018 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Capital gains tax	**0.3**	0.2
Prior year adjustments	**0.2**	1.9
Taxation on contract holder funds	**16.3**	26.3
Foreign tax differential	**(0.9)**	(0.7)
Non-taxable income[1]	**(5.4)**	(13.1)
Non-deductible expenses[2]	**7.1**	9.7
Tax losses for which no deferred tax asset was recognised	**0.6**	2.8
Cell captive tax – to be recovered from cell owners	**10.2**	14.7
Other	**(0.4)**	(1.7)
Effective rate	**56.0**	68.1

1 Non-taxable income comprises dividend income and other permanent differences on capital items which are non-taxable.
2 Non-deductible expenses comprise expenses for which no tax deduction is allowed as these are not in the production of income.

		2019 Rm	2018 Rm
28	**Cash flow from operating activities**		
28.1	**Cash utilised in operations**		
	Profit before tax	**5 479**	4 461
	Adjusted for		
	Items disclosed in other notes		
	Dividends received	**(5 752)**	(4 581)
	Interest received	**(14 977)**	(14 336)
	Finance costs	**1 021**	1 048
	Non-cash-flow items		
	Share of losses of associates	**269**	213
	Net realised and fair value gains	**(1 405)**	(17 786)
	Fair value adjustments on investment contract liabilities	**9 107**	17 555
	Fair value adjustments on collective investment scheme liabilities	**(492)**	2 738
	Depreciation and amortisation expenses	**1 060**	1 119
	Impairment charges and bad debt written off	**395**	142
	Deferred acquisition costs amortisation	**367**	663
	Share-based payments and other employee benefit expenses	**807**	599
	Provisions	**39**	(3)
	Changes in reinsurance assets and liabilities	**5 673**	1 794
	Deferred revenue liability movements	**(9)**	(162)
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Net insurance and investment liabilities	**(4 026)**	(1 554)
	Intangible assets related to insurance and investment contracts	**(377)**	(620)
	Investment properties	**(175)**	(687)
	Properties under development	**(56)**	(25)
	Financial assets and liabilities	**(10 036)**	(3 767)
	Financial assets at amortised cost (2018: Loans and receivables)	**(11 188)**	1 707
	Insurance and other receivables	**(292)**	(386)
	Employee benefit assets and obligations	**(680)**	(788)
	Reinsurance assets and liabilities	**(699)**	(12)
	Other operating liabilities	**10 762**	355
	Cash utilised in operations	**(15 185)**	(12 313)
28.2	**Income tax paid**		
	Due at beginning	**(2 553)**	(2 534)
	Charged to income statement	**(3 069)**	(3 039)
	Charged directly to other comprehensive income	**60**	(1)
	Business combinations	**–**	(32)
	Due at end	**2 898**	2 553
		(2 664)	(3 053)
28.3	**Interest paid**		
	Redeemable preference shares	**(106)**	(110)
	Unsecured subordinated call notes	**(418)**	(379)
	Cost of carry positions	**(286)**	(363)
	Other	**(190)**	(68)
		(1 000)	(920)

	2019 Rm	2018 Rm
28 Cash flow from operating activities *continued*		
28.4 Liabilities arising from financing activities		
Due at beginning	**12 185**	13 599
Repayment of borrowings	**(5 349)**	(7 968)
Proceeds from borrowings	**7 249**	5 693
Subordinated call notes issued	**750**	750
Subordinated call notes repaid	**(750)**	–
Accrued interest	**1 000**	1 004
Interest paid	**(1 000)**	(920)
Fair value movement	**72**	34
Other	**–**	(7)
Due at end	**14 157**	12 185

29 Business combinations

Business combinations for the year ended 30 June 2019

There were no significant business combinations during the current year.

Business combinations for the year ended 30 June 2018

During the prior year the Group acquired a short-term insurer in Namibia and an underwriting manager to form part of the Guardrisk group. As a result of these acquisitions, certain intangible/tangible assets and liabilities were recognised as part of the purchase price allocation performed on acquisition date. These business combinations were not considered significant for the Group as the consideration was, individually, not more than R100 million and therefore no further disclosures were provided.

30 Related party transactions

30.1 Major shareholders and group companies

Momentum Metropolitan Holdings Ltd is the ultimate holding company in the Group. By virtue of its shareholding of 26.8% in Momentum Metropolitan Holdings Ltd, RMI has significant influence over the Group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile.

KTH is also considered to be a related party by virtue of its role as the Group's broad-based black economic empowerment (B-BBEE) partner.

Apart from the shareholders' roles as related parties discussed above, no other Momentum Metropolitan Holdings Ltd shareholders have a significant influence and thus no other shareholder is a related party.

Significant subsidiaries of the Group are listed in Annexure A. Details of the associates of the Group are contained in note 5 and Annexure B. Details of the joint ventures of the Group are contained in note 5.

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

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

30 Related party transactions *continued*

30.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the Group, as well as to non-executive directors (in the form of fees). Remuneration paid to directors is disclosed in Annexure F.

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

	2019 Rm	2018 Rm
Salaries and other short-term employee benefits	24	31
Post-employment benefits	–	1
Termination benefits	–	7
Share-based payments	3	2
Directors' fees	16	16
	43	57

The Group's executive directors are members of the staff pension schemes.

The executive directors participate in the Group's long-term retention schemes, the details of which are in note 14.1.2.

Aggregate details of insurance and investment transactions between Momentum Metropolitan Holdings Ltd, any subsidiary and key management personnel and their families are as follows:

	2019		2018	
	Insurance Rm	Investment Rm	Insurance Rm	Investment Rm
Fund value	5	214	5	207
Aggregate life and disability cover	687	N/A	33	N/A
Deposits/premiums for the year	2	7	1	28
Withdrawals/claims for the year	–	(1)	–	(76)

In aggregate, the Group earned fees and charges totalling R0.3 million (2018: R2.2 million) on the insurance and investment products set out above.

30.3 B-BBEE partner

The Group's B-BBEE partner, KTH, has an interest of 7.6% (2018: 7.3%) in Momentum Metropolitan Holdings Ltd. The Group has entered into the following transactions with KTH:

- Momentum Metropolitan Holdings Ltd issued preference shares to KTH and subscribed to a preference share in KTH as disclosed in note 11.2.1.
- KTH has certain strategic empowerment holdings in the Group. Refer to the directors' report for more details.
- Dividends of R38 million (2018: R38 million) were paid to KTH on the A3 Momentum Metropolitan Holdings Ltd preference shares.

30 Related party transactions *continued*

30.4 Contract administration

Certain companies in the Group carry out third-party contract and other administration activities for other related companies in the Group. These transactions are entered into at market-related rates. These fees are eliminated on consolidation.

30.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 6.4).

30.6 Transactions with significant shareholders

Momentum Metropolitan Holdings Ltd dividend declarations:

R369 million of the ordinary dividends declared by Momentum Metropolitan Holdings in September 2017 and R140 million of the ordinary dividends declared in March 2019 were attributed to RMI. Another R140 million will be provided for during the 2020 financial year (as part of the dividends declared in September 2019).

30.7 Post-employment benefit plans

Refer to note 14 for details of the Group's employee benefit plans.

	2019 Rm	2018 Rm
31 Capital and lease commitments		
Capital commitments		
Authorised but not contracted	655	571
Authorised and contracted	35	–
	690	571
The above commitments, which are in respect of computer software, building refurbishment and new business opportunities, will be financed from internal sources. The Group has also made capital commitments of R447 million for 2021 for the India, aYo and other new initiatives.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	100	24
Between 1 and 5 years	162	13
More than 5 years	19	–
	281	37
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	384	321
Between 1 and 5 years	985	637
More than 5 years	1 138	283
	2 507	1 241

32 Contingent liabilities

ACC POLICY
Annex D17

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

33 Events after the reporting period

Proposed acquisition after year-end

Momentum Metropolitan Holdings Ltd, through its wholly-owned subsidiary, MMSI, has entered into an agreement to acquire the entire Alexander Forbes Short-term Insurance (AFI) business from Alexander Forbes Ltd for R1.94 billion. The strategic acquisition is in line with Momentum Metropolitan's overall Reset and Grow strategy and specifically aims to fast track growth of the non-life insurance interests of the Group. A purchase price allocation has not yet been performed as the proposed transaction is still subject to regulatory approval.

Net asset value and profits attributable to the business as at 31 March 2019: AFI reported a profit after taxation for the year ended 31 March 2019 of R135 million. The net asset value of AFI as at 31 March 2019 was R322 million.

Uncertain tax position

At 30 June 2019, a tax dispute existed in relation to taxation of Metropolitan Lesotho's life insurance business. On 4 July 2019, the Lesotho Tax Tribunal delivered a ruling that the Group accepts and views favourably. Consequently a material contingent liability is therefore no longer expected or disclosed.

No other material events occurred between the reporting date and the date of approval of these results.

34 Financial risk management

The risk philosophy, structures and management processes of the Group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the Group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The Group is currently exposed to the following financial risks:

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

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

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

34 Financial risk management *continued*

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

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

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

35 Capital management

35.1 Capital management objectives

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

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

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

35.2 Capital management framework

The Group's capital management framework rests on the following key principles:

- **Capital requirements and definition of capital**

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

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

- **Own Funds and Solvency Capital Requirements**

  The regulatory capital coverage is determined as the ratio of own funds to the solvency capital requirement (SCR). The calculation of the own funds and SCR are in accordance with the technical specifications of the Prudential Standards that are applicable to all of the Group's local insurance entities.

35 Capital management *continued*

35.2 Capital management framework *continued*

- **Capital coverage**

  The Group specifies capital coverage ratios and ranges for the Group and its regulated insurance entities, which are defined under its risk appetite framework.

- **Capital allocation**

  As a general principle, subsidiaries are capitalised to ensure medium-term regulatory solvency while additional capital is held centrally to support the long term regulatory solvency of the entities. MML is capitalised in excess of what its own covered business requires.

- **Investment of assets backing shareholder capital**

  Shareholder capital portfolios are investible, financial assets that are in excess of the assets that are required to meet policyholder obligations and that are directly attributable to the Group's shareholders. MML invests the assets backing its shareholder capital portfolios in line with its approved risk appetite and mandates.

- **Capital planning process**

  The Group's capital planning process facilitates value creation by aligning corporate strategy, capital allocation and performance measurement. The Group's capital planning process is conducted on a forward looking basis through regular solvency and liquidity projections that take into account capital sourcing requirements, strategic capital deployment and subsidiary capital requirements.

- **Dividends**

  The Group's dividend policy aims to grow dividends in line with diluted normalised headline earnings growth.

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

- **Alignment of capital with subsidiaries**

  The Group provides the over-arching guiding principles regarding capital management for all subsidiaries as it is the main provider of capital to these subsidiaries.

35.3 Overview of capital management developments

35.3.1 Regulatory capital developments

The Financial Sector Regulation Act of 2017 became effective on 1 April 2018, introducing the Twin Peaks model of regulating financial institutions. The Twin Peaks model established the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB), and the FSCA. The new regulatory bodies effectively replaced the functions previously performed by the Financial Services Board (FSB). The prudential supervision of insurers was therefore effective from 1 April 2018, performed within the PA.

The Insurance Act took effect on 1 July 2018. The capital management information in this report now reflects the requirements of the new Prudential Standards.

35 Capital management *continued*

35.3 Overview of capital management developments *continued*

35.3.2 Changes in capital structure

Share buy-back programme

On 7 March 2018, Momentum Metropolitan Holdings announced a R2 billion share buy-back programme in lieu of dividends. The programme was successfully completed on 29 November 2018.

Through the program the Group repurchased 106 million shares. Of the shares repurchased, 59 million shares were repurchased between 1 July 2018 and 29 November 2018.

Subordinated debt raising

On 18 March 2019, MML, a subsidiary of Momentum Metropolitan Holdings, successfully listed a new subordinated debt instrument MMIG07 to the value of R750 million. The proceeds of the issuance were used to refinance the subordinated debt instrument MMIG01 that became callable on 17 March 2019.

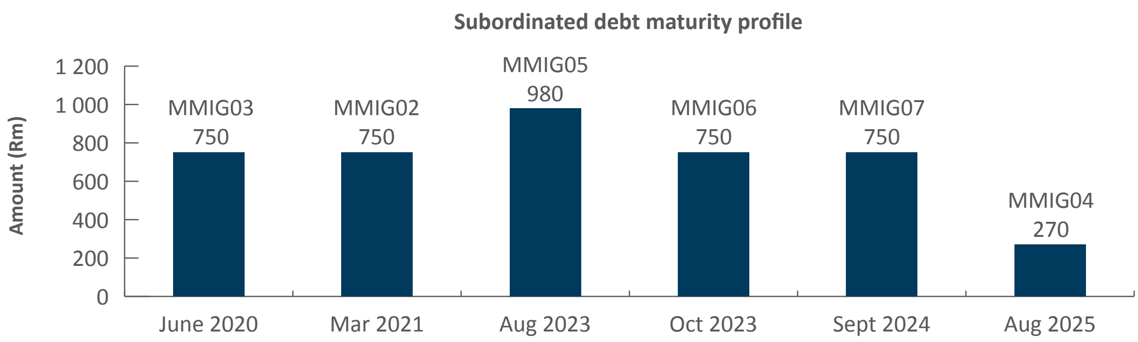
35.3.3 Subordinated debt profile

The table below shows a summary of the MML subordinated debt programme, unsecured callable notes currently in issue at 30 June 2019:

Momentum Metropolitan Life Ltd subordinated debt profile Instrument code	Amount issued (Rm)	Coupon rate	Tenor	Date issued	Interest rate
MMIG02	750	10.07%	7.0	Mar 14	Fixed
MMIG03	750	JIB03 + 230 bps	5.5	Dec 14	Floating
MMIG04	270	11.30%	10.0	Aug 15	Fixed
MMIG05	980	10.86%	7.0	Aug 15	Fixed
MMIG06	750	JIB03 + 220 bps	6.0	Oct 17	Floating
MMIG07	750	JIB03 + 175 bps	5.5	Mar 19	Floating

The Group believes that the current capital mix is adequate, but will continue to pursue strategies to optimise the capital mix within the Prudential Standards.

The graph below shows the maturity profile of Momentum Metropolitan Life's subordinated debt:



35 Capital management *continued*

35.4 Capital Coverage

MML has adopted a target range for regulatory solvency cover of 1.7 to 2.1 times the SCR. This makes allowance for the capital required to support the covered business against a range of severe but plausible scenarios, as well as the wider strategic investments. As at 30 June 2019, MML had SCR cover of 2.08 times SCR.

It is currently expected that the Group will be designated as an insurance group by the Prudential Authority. Until the Group designation process is complete, the solvency position of the Group is reported in line with the provisions of the Comprehensive Parallel Run. Certain methodologies that have been applied in the solvency assessments are subject to approval from the Prudential Authority, and will be addressed as part of the Group designation process. The Group's solvency position is determined by aggregating the results under the regulatory framework of all the underlying entities, after elimination of intra-group arrangements. At 30 June 2019, the Group had group SCR cover of 1.7 times SCR. The Group targets an SCR cover range of 1.45 to 1.75 times SCR.

35.5 Credit ratings

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

Moody's confirmed the credit ratings of MML and Guardrisk in November 2018. Given the tough economic environment, the affirmation of the credit ratings can be viewed as positive for MML and Guardrisk.

Entity	Type	Global scale	National scale	Outlook
Momentum Metropolitan Life				
Momentum Metropolitan Life Ltd	Insurer financial strength	Baa2	Aaa.za	Stable
Momentum Metropolitan Life Ltd	Issuer rating	Baa3	Aaa.za	Stable
Subordinated debt	N/A	Ba1	Aa2.za	Stable
Guardrisk				
Guardrisk Insurance Company Ltd	Insurer financial strength	Baa3	Aaa.za	Stable
Guardrisk Life Ltd	Insurer financial strength	Baa3	Aaa.za	Stable
Guardrisk International Ltd PCC	Insurer financial strength	Baa3	N/A	Stable

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

On Guardrisk, Moody's commented that "The Baa3 global scale Insurance Financial Strength (IFS) ratings assigned to entities in the Guardrisk group – as well as the Aaa.za national scale IFS ratings assigned to the South African entities – reflect (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong profitability. These strengths are partially offset by (i) its investment portfolio's concentrated exposure to the South African economy and banking system, which is somewhat correlated with the credit risk of cell owners and (ii) the uncertainty around the level of its capital coverage under the upcoming SAM regulations".

36 Insurance and investment business

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

2019	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	50 075	23 096	109	73 280
Individual contracts with DPF	36 057	5 630	59	41 746
Smoothed bonus business	26 117	5 630	59	31 806
Conventional with-profit business	9 940	–	–	9 940
Group contracts with DPF	14 018	17 466	50	31 534
Smoothed bonus business	65	16 706	–	16 771
Smoothed bonus business – fully vesting	–	722	–	722
With-profit annuity business	13 953	38	50	14 041
Market-related business	16 560	371	228 224	245 155
Individual market-related business	16 571	371	153 448	170 390
Group market-related business	(11)	–	74 776	74 765
Other business	46 947	333	11 462	58 742
Non-profit annuity business	36 281	–	2 083	38 364
Guaranteed endowments	23	–	9 354	9 377
Other non-profit business	10 643	333	25	11 001
Subtotal	113 582	23 800	239 795	377 177
Liabilities in cell captive and non-life business	12 201	–	11 258	23 459
Total contract holder liabilities	125 783	23 800	251 053	400 636

2018	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	45 259	24 212	47	69 518
Individual contracts with DPF	36 635	6 005	–	42 640
Smoothed bonus business	27 120	6 005	–	33 125
Conventional with-profit business	9 515	–	–	9 515
Group contracts with DPF	8 624	18 207	47	26 878
Smoothed bonus business	–	17 407	–	17 407
Smoothed bonus business – fully vesting	–	759	–	759
With-profit annuity business	8 624	41	47	8 712
Market-related business	16 655	166	226 090	242 911
Individual market-related business	16 667	166	149 854	166 687
Group market-related business	(12)	–	76 236	76 224
Other business	44 857	172	12 503	57 532
Non-profit annuity business	33 912	–	2 035	35 947
Guaranteed endowments	27	–	10 371	10 398
Other non-profit business	10 918	172	97	11 187
Subtotal	106 771	24 550	238 640	369 961
Liabilities in cell captive and non-life business	11 160	–	9 221	20 381
Total contract holder liabilities	117 931	24 550	247 861	390 342

36 Insurance and investment business *continued*

36.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with DPF

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MML has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the Momentum Metropolitan Holdings Ltd Board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, BSAs are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The Group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.
- The major classes of smoothed bonus business are:
  - Metropolitan Retail individual smoothed bonus business (open to new business).
  - Momentum Corporate smoothed bonus business (open to new business).
  - Momentum Corporate with-profit annuity business (open to new business).
  - Momentum Life traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
  - Momentum Life traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
  - Momentum Life fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

36 Insurance and investment business *continued*

36.1 Classes of long-term insurance and investment business *continued*

Market-related business

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

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

Non-profit annuity business

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

Guaranteed endowments (insurance and financial instrument business)

Insurance

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

Other non-profit business

- These include long-term regular premium insurance contracts of varying duration.
- The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

36 Insurance and investment business *continued*

36.1 Classes of long-term insurance and investment business *continued*

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 10.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

36.2 Long-term insurance risk

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

Long-term insurance risk management

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

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

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

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

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks

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

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

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

Individual insurance business

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

- Demographic risks are managed as follows:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the Group to adjust these charges so that on average they reflect actual mortality experience reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures and client expectation management.
  - To reduce cross-subsidisation of risks and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the Group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
  - All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
  - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.

Notes to the financial statements continued

For the year ended 30 June 2019

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

- Demographic risks are managed as follows *continued*:
  - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.
  - Momentum Life and Investments typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.
  - Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place on existing business for fully underwritten and limited underwriting products, but only fully underwritten new business is reinsured and there is no reinsurance in place for funeral products.
  - Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MML's catastrophe reinsurance cover for the current financial year is R750 million (2018: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The table below shows the concentration of individual insurance contract benefits (gross and net of reinsurance) by sum insured at risk:

Sum insured per benefit (Rands)	2019 Number of benefits	2019 Amount (gross) Rm	2019 Amount (net) Rm	2018 Number of benefits	2018 Amount (gross) Rm	2018 Amount (net) Rm
0 – 20 000	**3 067 828**	**25 985**	**24 760**	3 045 325	27 656	26 946
20 001 – 50 000	**1 018 703**	**39 598**	**38 301**	926 377	39 294	38 120
50 001 – 100 000	**360 804**	**29 697**	**26 762**	274 406	25 936	23 019
100 001 – 200 000	**132 681**	**22 060**	**16 108**	121 875	21 810	16 076
200 001 – 500 000	**215 458**	**79 573**	**50 978**	212 791	72 348	50 620
500 001 – 1 000 000	**222 738**	**122 859**	**90 174**	237 832	130 058	95 783
> 1 000 000	**476 494**	**996 782**	**557 422**	502 674	973 861	541 683
Subtotal	**5 494 706**	**1 316 554**	**804 505**	5 321 280	1 290 963	792 247
Cell captive business	**6 478 056**	**451 133**	**117 690**	6 371 594	389 344	111 695
Total	**11 972 762**	**1 767 687**	**922 195**	11 692 874	1 680 307	903 942

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - Life insurance (mostly lump sum, but including some children and spouse's annuities)
  - Disability insurance (lump sum and income protection)
  - Dread disease cover
  - Continuation of insurance option.

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks continued

Group insurance business continued

- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk exists.
  - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the Group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to limit anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 400 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an "actively at work" clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the Group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced.
  - There is a standard reinsurance treaty in place covering group business. Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured. There are some facultative arrangements in place on some schemes where a special structure is required, eg a very high free cover limit or high benefit levels. In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

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

Lives covered by scheme	2019	2018
0 – 1 000	**8 920**	8 950
1 001 – 5 000	**287**	279
> 5 000	**135**	115
Subtotal	**9 342**	9 344
Cell captive business	**88**	110
Total	**9 430**	9 454

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks continued

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. With-profit annuities are also offered whereby the policyholder shares in the experience of a pre-defined group of policyholders. The longevity risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
  - Increased longevity due to medical advances and improvement in social conditions.
  - Selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - Annuity products are sometimes sold in combination with whole life cover, which provides a natural hedge against longevity and mortality risk.
  - Premium rates differentiate on the basis of age and sex.

The following table shows the distribution of number of annuitants by total amount per year:

	2019		2018	
Annuity amount per annum (Rands)	**Number of annuitants**	**Total amount per annum Rm**	**Number of annuitants**	**Total amount per annum Rm**
0 – 10 000	**68 174**	**297**	71 864	311
10 001 – 50 000	**44 800**	**1 056**	44 348	1 027
50 001 – 100 000	**11 518**	**808**	11 418	798
100 001 – 200 000	**6 355**	**877**	5 991	825
> 200 000	**3 993**	**1 515**	3 560	1 328
Subtotal	**134 840**		137 181	
Cell captive business	**1 535**	**98**	1 576	101
Total	**136 375**		138 757	

Permanent health insurance business

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

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.2 Contract persistency risk

- Persistency risk is the risk of adverse change in the value of insurance contracts due to adverse lapse, surrender and paid-up experience, or to a change in the expected exercise rates of such policyholder options.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, any amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which is usually the case for risk policies and normally happens early on in the term of recurring premium savings policies, or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits. Also, for these types of policies, the risk at later durations is that terminations are less than assumed when pricing and valuing policies, because upfront costs have largely been recouped and a termination at that stage releases a liability.

Factors affecting the risk:

- Economic conditions – economic hardship can cause an increase in terminations due to a reduced ability to afford premiums or a need for funds.

How risks are managed:

- In addition to setting realistic assumptions with regard to termination rates (rates of lapse, surrender and paid up experience) based on the Group's actual experience, capital is set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, customer retention programmes are in place to actively retain customers at risk of departure due to a lapse, surrender or maturity.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

36.2.3 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance contracts, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. The Group has some exposure to retrenchment risk, and will consider future opportunities which provide adequate risk-adjusted return and can be appropriately mitigated. The risk is seen as an enabler to get more exposure to other risks to which the Group has a risk-seeking attitude. When writing retrenchment risk, the Group carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

36 Insurance and investment business *continued*

36.2 Long-term insurance risk *continued*

36.2.4 Expense risk

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

Budget controls are in place to mitigate this risk. The Group performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience and budgets, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of certain books that are closed to new business.

36.2.5 Business volume risk

There is a risk that the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs is variable and relates directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes, but this will happen over a period of time. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are used to distribute a range of product lines within the Group, such as health insurance and non-life insurance.

36.3 Non-life insurance risk

Non-life insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines.

The definitions of the risks that compromise non-life insurance risk are presented below:

- Premium risk: the risk of financial loss arising from fluctuations in timing, frequency and severity of insured events for business to be written in the next 12 months and unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or the need to increase these provisions.
- Reserve risk: the risk of adverse change in the value of insurance obligations arising from fluctuations in timing and amounts of claim settlements.
- Lapse risk: the risk of financial loss, or of adverse change in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- Catastrophe risk: the risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a financial loss, or of an adverse change in the value of insurance liabilities. Catastrophe losses are the losses that arise from catastrophe risk and these include:
  – Natural catastrophes which includes anything which is caused by a natural process, including earthquakes and hail storms.
  – Man-made catastrophes which are events that arise as a consequence of actions by humans.

The Group conducts business in different classes of non-life insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (refer to note 37 for cell captive classes of business):

- Motor: Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property.
- Accident and Health: Provides policy benefits if a disability event, health event or death event occurs.

36 Insurance and investment business *continued*

36.3 Non-life insurance risk *continued*

- Liability: Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- Transportation: Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed.
- Miscellaneous: Provides policy benefits relating to any matter not otherwise provided for. This type of contract typically includes inter alia legal expense insurance.

Premiums and claims relating to non-life insurance for the Group are as follows:

	2019 Rm	2018 Rm
Premiums	**12 072**	9 998
Claims	**7 191**	5 475

37 Guardrisk

Introduction

Momentum Metropolitan Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Guardrisk has to a large degree aligned all its risk management processes to that of the Group and will continue to improve alignment where necessary.

Nature of business

Guardrisk is principally engaged in both non-life and long-term insurance and related insurance management activities. Guardrisk Insurance transacts in all classes of non-life insurance business, primarily as a cell captive and alternative risk transfer insurer, focusing on both the corporate and retail market. Guardrisk Life was also South Africa's first cell captive life insurer, and is licensed to underwrite all classes of life insurance business, also primarily as a cell captive and alternative risk transfer insurer. With the 1 July 2018 enactment of the Insurance Act of 2017, the licence conversion process of all insurance licences owned and/controlled in Guardrisk, that started in August 2018, is still ongoing.

There are currently two distinct types of cell captive arrangements, being:

- "First-party" cell arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- "Third-party" cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products or the on selling of insurance products through contracted independent intermediaries. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.

The "promoter cell" is the portion of the business where Guardrisk transacts for its own account and therefore excludes the net results and all assets and liabilities of the first and third-party cell arrangements.

All agreements for services provided in respect of third-party arrangements are transacted between Guardrisk and the third party. All transactions with third parties and policyholders are recorded in the income statement, with the third-party cell owner being a reinsurer of the net result. The impact of this application on the Group's financial statements is that the results of the cell captive arrangements have no direct impact on the Group's earnings, except for fee income earned by the promoter cell.

37 Guardrisk *continued*

Nature of business *continued*

In a limited number of cases, the promoter cell retains a portion of a cell's risk and therefore acts as reinsurer for certain cells. In such cases the remaining risk in the cell could be further reinsured to external reinsurers. In addition to the fee income earned from the cell, the promoter cell also earns underwriting profits on the risk retained for these cells. Guardrisk also underwrites specific niche corporate and commercial business for its own account. Risk retention is managed with appropriate reinsurance.

The Group's income statement includes several income and expense items related to insurance business written through cell arrangements. In particular all transactions relating to third-party cell arrangements are recorded. However, these transactions are transferred back to the third-party cell owner and therefore the net impact on the Group's earnings is limited to the net result of transactions relating to the promoter cell only. Assets and liabilities from cell captive arrangements are recognised in the statement of financial position. Except for the impact of contingency policies, as well as the fees earned by the promoter cell and income on the promoter cell's own assets, cell arrangements have no impact on the Group's earnings.

A contingency policy is an insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a performance bonus to the insured based on claims experience and related expenses at the end of the policy period.

Risk management

The Guardrisk business is exposed to insurance risk. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, Guardrisk has the right not to offer any renewal terms to individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle Guardrisk to pursue third parties for payment of some or all costs (e.g. subrogation).

The underwriting strategy is directed at a portfolio of underwritten risks that are well diversified in terms of risk, industry and geography.

Cell captive arrangements

The cell owner shareholders' agreements protect the Group from losses arising from business conducted in cells due to the rights and obligations of both parties set out in the various cell owner shareholders agreements. Individual cells not meeting capital requirements pose a solvency risk that is monitored on a monthly basis and, if required, additional capital is requested from such cell owners. The Group's exposure to risk on this business is a credit risk of the cell owner, if a cell owner does not meet its contractual solvency obligations set out in the cell owner shareholders agreement, with respect to third-party cell arrangements. Based on current economic conditions, and reviewing specific facilities, a probability of default is applied to cells in deficit.

In addition, reinsurance agreements are concluded to minimise the solvency risk (refer to Reinsurance section below).

Contingency policy business

This business is usually written for a one-year period with the policies covering multiple risks. The risks underwritten are those of a corporate entity (ie first-party business) and are generally either in respect of primary layers of the corporate's insurance programme or for risks that are difficult to insure in a traditional insurance product. The corporate insured in a contingency policy is entitled to a share in the underwriting result if there is favourable claims experience.

Subject matter experts in the business provide input to develop suitable policy and cover limits as well as retention limits for reinsurance where applicable. Reinsurance is generally structured above the layer provided by the contingency policy.

There is an aggregate excess of loss treaty in place for all contingency policies. This reinsurance treaty is currently arranged for a limit of R15 million each and every loss in excess of R1 million each and every loss up to R5 million in the annual aggregate.

37 Guardrisk *continued*

Risk management *continued*

Risk participation with cell shareholders

Guardrisk, through the promoter cell, shares in the emerging underwriting experience of selected cell arrangements. Before entering into new risk sharing agreements with cell owners, internal processes covering all disciplines are executed with a recommendation to the Guardrisk Product Management Committee for decision making if within delegated mandate, otherwise the decision is escalated to the Guardrisk Board.

Terms and conditions of non-life insurance contracts

Non-life insurance business is transacted across all of the 17 classes set out in the Insurance Act of 2017. The terms and conditions of Guardrisk's insurance contracts are in accordance with its licence conditions as set out below.

Insurance is provided to corporate clients (through first-party cells and contingency policies) and to the general public (through third-party cell owners). Insurance contracts are issued for monthly, annual and multi-year periods and include the following classes of risk:

Motor – Covers damage or loss resulting from the possession, use or ownership of motor vehicles and other vehicles operating on land, excluding railway rolling stock and warranty business.

Property – Covers damage to or loss resulting from the possession, use or ownership of property (other than classes 1 above and 3 to 8 below).

Agriculture – Covers damage or loss to crop, forestry, agricultural equipment, other agricultural activities and livestock.

Engineering – Covers damage to or loss resulting from the possession, use or ownership of machinery or equipment; the erection of buildings or other structure; the undertaking of other works; or the installation of machinery or equipment, and includes loss of revenue.

Marine – Covers damage or loss resulting from the possession, use or ownership of vessels used on or in a river, canal, dam, lake or sea.

Aviation – Covers damage or loss resulting from the possession, use or ownership of aircraft or spacecraft.

Transport – Covers damage or loss resulting from the conveyance, storage, treatment and handling of goods in transit, irrespective of the form of transport.

Rail – Covers damage or loss resulting from the possession, use or ownership of railway rolling stock or related infrastructure.

Legal expense – Covers any legal expenses and costs of litigation.

Liability – Covers liability to another person including liability provided for under the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993).

Consumer credit – Lump sum payable to satisfy all or part of a financial liability to a credit provider in the event of loss resulting from the possession, use, ownership or benefits of the goods or services supplied in terms of the credit agreement.

Trade credit – Covers loss resulting from the provision of export credit or agricultural credit or any other trade credit as a result of insolvency or any other event.

Guarantee – Covers loss resulting from:
- insolvency;
- the direct and indirect failure of a person to discharge an obligation;
- suretyship offered as part of normal business activities, other than a guarantee issued by a bank registered under the Banks Act, 1990.

37 Guardrisk *continued*

Risk management *continued*

Terms and conditions of non-life insurance contracts *continued*

Accident and Health – Covers costs or loss of income resulting from:

- a disability or death event caused by an accident; or
- a health event, other than costs or services regulated under the Medical Schemes Act, 1998, but includes any kind, type or category of contract identified by the Minister in regulations as an insurance policy that may be entered into under this class.

Travel – Covers damage or loss resulting from:

- cancellation, interruption, loss of property (including baggage), or other unforeseen events before, while and after travelling;
- a death, disability or health event while travelling in a country in which the insured person is not ordinarily resident.

Miscellaneous – Covers damage to or loss resulting from a risk not addressed under any other class or subclass referred to in this Table, which risk is approved by the Prudential Authority.

Reinsurance – Proportional or non-proportional in respect of a class or sub-class referred to above.

Multi-year risk insurance programmes are insurance policies where maximum cover is provided at inception of the policy with premiums payable at inception and in future periods. The Group's exposure to risk on this business (relating to first-party cell arrangements and contingency policies) is limited to the credit risk of the policyholder. The credit risk is substantially reinsured by a panel of participating reinsurers.

Terms and conditions of life insurance contracts

Life insurance business is transacted across all of the 9 classes set out in Table 1 of the Short-Term Insurance Act of 2017.

Short duration life insurance contracts – These contracts generally consist of personal accident cover providing death, disability and retrenchment benefits in the event of an accident. Benefit payments are fixed and payable on the occurrence of the specified insurance event.

Long duration insurance contracts with fixed and guaranteed terms – These contracts insure events associated with human life (eg credit life or health insurance contracts) over a long duration.

Long duration insurance contracts without fixed terms – These contracts insure events associated with human life (eg post-retirement medical aid and health insurance contracts) over a long duration.

General risk overview

Guardrisk has an Audit and Risk committee and an Investment committee. These Board sub-committees oversee the risk universe from general operations and investments respectively. Operational management of risk is delegated to the Guardrisk Executive committee with operational committees tasked in specific areas. New and existing product development initiatives are considered by the product management committees for appropriateness and viability that conforms to regulatory, legal, tax and accounting requirements.

For each cell or policy accepted by Guardrisk, a business take-on process is followed that utilises multi-disciplinary teams, to determine major exposures to insurance risk. This take-on process varies in extent and detail depending on the significance of the new cell facility. Where the business take-on process identifies significant down-side risk, measures are put in place to manage the residual retained risks to remain within risk appetite.

Premiums charged for risks are regularly monitored by the underwriting and actuarial teams and, where necessary, adjustments are made to the office premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

37 **Guardrisk** *continued*

Risk management *continued*

Reinsurance

The key objective when placing reinsurance is to optimise capital requirements and protection of the retained lines of both Guardrisk and the cell owners.

The reinsurers selected are in accordance with Guardrisk's reinsurance vetting procedures. These are presented to and approved by the Guardrisk Board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

Other than sourcing capacity for both first and third-party business, reinsurance is arranged to protect the net retention of the promoter on both a proportional and non-proportional basis. The net retention of both Guardrisk and the cells will determine the non-proportional programmes whereas estimated premium income and loss ratios determine retention on proportional programmes. The non-proportional reinsurance arrangements include per risk and/or per event excess-of-loss coverage. Proportional reinsurance arrangements are predominantly quota share treaties with limited use of surplus treaties.

Concentrations of insurance risk

Risks relating to the Guardrisk business are adequately spread across the major classes of insurance risk and is spread geographically.

Credit risk

The Guardrisk business has exposure to credit risk (relating to financial assets, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance policyholders and amounts due from insurance intermediaries), which is the risk that a counterparty will be unable to pay amounts in full when due. A unique key area where the Group is exposed to credit risk is with regards to the cell shareholders' obligation to restore solvency of cells when required.

The relationship between Guardrisk and its cell owner shareholders is governed by the cell owner shareholders agreement entered into between Guardrisk and the cell owner shareholder. This agreement determines that the cell owner shareholder has the obligation to restore any capital deficit in its cell on receipt of such a demand from Guardrisk. Guardrisk can demand recapitalisation of a cell in the event of the solvency ratio of the cell falling below the ratio required by the regulator or if the shareholders' funds reflect a deficit. Claims of first and third-party cells will be paid in terms of the policy. If the cell is in a deficit position after the claim, a request will be made to recapitalise the cell. However, in the case of first-party cells, the claims are further limited to the policy limits.

This risk is managed by a detailed assessment of potential cell shareholders' creditworthiness based on the ability to meet the responsibility and obligations in terms of the shareholders agreement. Solvency of cells is assessed monthly, to manage the solvency support provided from the promoter within the Board approved solvency support framework. Based on current economic conditions, and reviewing specific facilities, a probability of default is applied to cells in deficit.

An impairment provision of R102 million (net of tax) was made in the current year (2018: Rnil).

38 Financial risk inherent in consolidated collective investment schemes and other investment products

The Group consolidates a number of collective investment schemes and other investment products. Refer to Annexure A for information on the schemes consolidated.

As a result of exercising control over these schemes and other investment products, the Group's risk management framework is applicable to the risk management of these portfolios.

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

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

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

A portfolio's market risk appetite is measured as a function of current market conditions and its investment objective and mandate in conjunction with its relevant benchmark.

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

The collective investment schemes and other investment products not consolidated are included in Annexure B as Collective investment schemes and Investments in associates. These are designated at fair value through income.

39 Liquidity risk

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

Liquidity risk governance

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

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

Liquidity risk management

The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 84% (2018: 86%) of the liabilities of the Group. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed endowment and structured product benefits

Guaranteed endowments and structured products have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when the liabilities become payable.

Non-profit annuity policyholder benefits

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

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon a contractual claim, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

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

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

39 Liquidity risk *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

Conventional with-profit and smoothed bonus policyholder benefits continued

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

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the Group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

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

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

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

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

39 Liquidity risk *continued*

Liquidity risk management *continued*

Shareholder funds

The significant shareholder liabilities of the Group are the cumulative convertible redeemable preference shares issued by the Company, the carry positions, the subordinated call notes issued by MML and the cumulative redeemable preference shares issued by MMSI.

The Group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restrict exposure to high-quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the Capital and Investment Committee. The regular reports take the expected shareholder cash flows (eg committed mergers and acquisition activity and liquidity needs of related entities) into account in order to identify material funding liquidity gaps early. By determining the potential liquidity gaps, the funding liquidity and market liquidity risks of the shareholder portfolios are mitigated.

Liquidity profile of assets

The following table illustrates that the Group's assets are fairly liquid in order to meet the liquidity needs of obligations if the Group should be required to settle earlier than expected:

	2019		2018	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**69**	**345 975**	71	337 786
Medium[2]	**26**	**131 194**	24	113 513
Low/illiquid[3]	**5**	**23 762**	5	24 088
Other assets not included above				
– employee benefit assets		**469**		436
– accelerated rental income		**295**		252
– deferred income tax		**599**		290
– Non-current assets held for sale		**608**		–
Total assets		**502 902**		476 365

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 at amortised cost, insurance receivables, reinsurance contracts).

3 Low/illiquid assets are those that are considered to be realisable in excess of six months (eg intangible assets, investment and owner-occupied properties, property and equipment, equity-accounted associates).

39 Liquidity risk *continued*

Maturity profile of liabilities

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

2019 R million	Carrying amount	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)[2]	113 582	113 582	19 477	12 943	27 726	21 893	31 543
Linked (market-related) business							
Individual	16 190	16 190	1 240	1 808	3 619	3 783	5 740
Employee benefits	(11)	(11)	–	(1)	(4)	(6)	–
Smoothed bonus business							
Individual	26 608	26 608	955	3 592	8 254	6 249	7 558
Employee benefits	65	65	65	–	–	–	–
Conventional with-profit business	9 944	9 944	5 963	374	500	211	2 896
Non-profit business							
Individual	7 698	7 698	2 272	524	1 192	708	3 002
Employee benefits	2 851	2 851	171	1 621	511	305	243
Annuity business	50 237	50 237	8 811	5 025	13 654	10 643	12 104
Investment contracts with DPF (DCFs)[2]	23 800	23 800	19 489	681	1 624	916	1 090
Linked (market-related) business							
Individual	178	178	6	17	73	39	43
Smoothed bonus business							
Individual	5 822	5 822	1 683	664	1 551	877	1 047
Employee benefits	17 581	17 581	17 581	–	–	–	–
Non-profit business							
Individual	1	1	1	–	–	–	–
Employee benefits	180	180	180	–	–	–	–
Annuity business	38	38	38	–	–	–	–
Investment contracts (undiscounted cash flows)	239 795	239 996	117 556	7 124	16 729	13 215	85 372
Linked (market-related) business							
Individual	153 502	151 748	43 833	4 665	5 842	13 098	84 310
Employee benefits	74 793	74 793	73 515	16	75	125	1 062
Non-profit business							
Individual	9 367	11 022	157	1 725	9 139	1	–
Annuity business	2 133	2 433	51	718	1 673	(9)	–

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2019 **R million**	**Carrying amount**	**Total**	**Open-ended**[1]	**0 to 1 year**	**1 to 5 years**	**5 to 10 years**	**> 10 years**
Subtotal policyholder liabilities under insurance and investment contracts	377 177	377 378	156 522	20 748	46 079	36 024	118 005
Cell captive and non-life business	23 459						
Total policyholder liabilities under insurance and investment contracts	400 636	377 378	156 522	20 748	46 079	36 024	118 005
Financial liabilities at fair value through income	40 753	42 020	29 596	7 865	3 470	1 084	5
Collective investment scheme liabilities	29 596	29 596	29 596	–	–	–	–
Subordinated call notes	4 431	5 698	–	1 162	3 452	1 084	–
Carry positions	6 613	6 613	–	6 613	–	–	–
Other	113	113	–	90	18	–	5
Derivative financial instruments[3]	2 318						
Financial liabilities at amortised cost	3 007	3 904	–	1 198	1 167	1 239	300
Cumulative redeemable convertible preference shares	254	291	–	–	291	–	–
Cumulative redeemable preference shares[4]	1 017	1 068	–	1 068	–	–	–
Other	1 736	2 545	–	130	876	1 239	300
Reinsurance contract liabilities	1 912	1 912	–	301	1 113	346	152
Other payables at amortised cost[5]	23 487	23 487	106	23 050	331	–	–
Other liabilities[6]	7 243						
Total liabilities	479 356	448 701	186 224	53 162	52 160	38 693	118 462

Notes to the maturity profile of liabilities table:

1 Open-ended liabilities are defined as:
– policies where the policyholder is entitled to the benefit at any future point (benefits are contractually available on demand); or
– where policies do not have a specified contract term.

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

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

4 Cumulative redeemable preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9, the liability was reclassified to amortised cost.

5 Other payables at amortised cost exclude premiums paid in advance and deferred revenue liabilities.

6 Other liabilities are considered to be excluded from the scope of IFRS 9 (prior year IAS 39) and IFRS 7; therefore no cash flows are provided for those liabilities.

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

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

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected DCFs, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 10.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities at fair value through income:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the Group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MML. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.

Financial liabilities at amortised cost:

- Cumulative redeemable convertible preference shares: It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 31 December 2020 (extended by 18 months in the current year), is assumed. The Group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- The cumulative redeemable preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 28 June 2020. It is expected that the preference shares will only be redeemed on the ultimate redemption date.
- Included in financial liabilities at amortised cost is a loan from FirstRand Bank Ltd of R267 million (2018: R486 million) with interest levied at 11% (2018: 11%). The interest is repaid monthly with the capital balance payable in December 2025. Also included is a loan from Standard Bank Ltd of R811 million (2018: R1 311 million) with interest levied at three-month JIBAR plus 2.10% (2018: JIBAR plus 2.10%). The interest on the loan was capitalised against the loan balance until 1 April 2019. Thereafter the interest has been repaid quarterly with the capital balance also being amortised quarterly and the balance payable in March 2026. Both loans are secured by underlying property.

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2018 R million	Carrying amount	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)	106 771	106 771	16 461	13 248	25 612	19 504	31 946
Linked (market-related) business							
Individual	16 691	16 691	1 117	1 407	3 968	3 944	6 255
Employee benefits	(12)	(12)	–	(1)	(5)	(6)	–
Smoothed bonus business							
Individual	27 402	27 402	1 334	3 722	8 784	6 048	7 514
Employee benefits	3	3	3	–	–	–	–
Conventional with-profit business	9 459	9 459	3 227	636	1 115	776	3 705
Non-profit business							
Individual	8 041	8 041	2 671	114	539	157	4 560
Employee benefits	2 593	2 593	113	1 731	345	208	196
Annuity business	42 594	42 594	7 996	5 639	10 866	8 377	9 716
Investment contracts with DPF (DCFs)	24 550	24 550	19 923	727	1 931	1 078	891
Linked (market-related) business							
Individual	166	166	7	16	69	42	32
Smoothed bonus business							
Individual	6 005	6 005	1 537	711	1 862	1 036	859
Employee benefits	18 164	18 164	18 164	–	–	–	–
Non-profit business							
Individual	20	20	20	–	–	–	–
Employee benefits	154	154	154	–	–	–	–
Annuity business	41	41	41	–	–	–	–
Investment contracts (undiscounted cash flows)	238 640	240 714	119 372	7 311	16 562	12 379	85 090
Linked (market-related) business							
Individual	149 617	149 553	43 647	3 969	5 635	12 231	84 071
Employee benefits	76 478	76 478	75 247	16	73	123	1 019
Non-profit business							
Individual	10 463	12 377	429	2 620	9 327	1	–
Annuity business	2 082	2 306	49	706	1 527	24	–

Notes to the financial statements continued

For the year ended 30 June 2019

39 Liquidity risk *continued*

Maturity profile of liabilities *continued*

2018 R million	Carrying amount	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Subtotal policyholder liabilities under insurance and investment contracts	369 961	372 035	155 756	21 286	44 105	32 961	117 927
Cell captive and non-life business	20 381						
Total policyholder liabilities under insurance and investment contracts	390 342	372 035	155 756	21 286	44 105	32 961	117 927
Financial liabilities designated at fair value through income	38 217	39 634	28 441	5 530	4 508	1 155	–
Collective investment scheme liabilities	28 441	28 441	28 441	–	–	–	–
Subordinated call notes	4 374	5 791	–	1 151	3 502	1 138	–
Carry positions	4 272	4 272	–	4 272	–	–	–
Preference shares	1 020	1 020	–	20	1 000	–	–
Other	110	110	–	87	6	17	–
Derivative financial instruments	2 255						
Amortised cost	2 420	2 292	–	1 340	263	689	–
Cumulative redeemable convertible preference shares	254	291	–	291	–	–	–
Other	2 166	2 001	–	1 049	263	689	–
Reinsurance contract liabilities	1 685	1 685	–	281	908	374	122
Other payables at amortised cost	12 798	12 798	2	12 711	85	–	–
Other liabilities	5 858						
Total liabilities	453 575	428 444	184 199	41 148	49 869	35 179	118 049

39 Liquidity risk *continued*

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated statement of financial position. The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

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

2019 R million	Carrying amount	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(2)	(12)	1	(13)	–
Interest rate derivatives	861	250	(14)	1 743	(1 479)
Bond derivatives	46	16 686	–	(3 839)	20 525
Credit derivatives	12	13	–	8	5
Currency derivatives	(786)	(485)	108	(249)	(344)
Total net undiscounted cash flow projections	131	16 452	95	(2 350)	18 707
Derivative financial instruments					
Assets	2 449				
Liabilities	(2 318)				
	131				

2018 R million	Carrying amount	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(40)	(45)	(45)	–	–
Interest rate derivatives	1 705	1 308	683	1 894	(1 269)
Bond derivatives	(90)	12 385	(3 377)	1 219	14 543
Credit derivatives	1	(2)	3	4	(9)
Currency derivatives	(921)	(613)	(33)	(142)	(438)
Total net undiscounted cash flow projections	655	13 033	(2 769)	2 975	12 827
Derivative financial instruments					
Assets	2 910				
Liabilities	(2 255)				
	655				

Notes to the financial statements continued

For the year ended 30 June 2019

40 Market risk

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

Financial instruments held by the Group are subject to the components of market risk as follows:

	Carrying amount 2019 Rm	Carrying amount 2018 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value through income					
Equity securities	**97 785**	104 199	✓✓		✓
Debt securities	**127 680**	108 618	✓	✓✓	✓
Funds on deposit and other money market instruments	**28 707**	27 524	✓	✓✓	✓
Unit-linked investments	**146 921**	154 805	✓✓	✓	✓
Investments in associates	**18 314**	11 383	✓✓	✓	✓
Derivative financial assets	**2 449**	2 910	✓✓	✓✓	✓
Carried at amortised cost					
Held-to-maturity	**–**	437		✓✓	✓✓
Debt securities	**387**	–		✓✓	✓✓
Funds on deposit and other money market instruments	**78**	–		✓✓	✓✓
Loans at amortised cost (2018: Loans and receivable)					
Accounts receivable	**2 245**	2 138		✓	✓
Unsettled trades	**11 565**	602			✓
Loans	**2 589**	2 693		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 896**	4 631		✓	✓
Cash and cash equivalents	**27 147**	25 812		✓✓	✓
Other non-financial assets	**32 139**	30 613	N/A	N/A	N/A
Total assets	**502 902**	476 365			

	Carrying amount 2019 Rm	Carrying amount 2018 Rm	Market price risk	Interest rate risk	Currency risk
40 Market risk *continued*					
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**251 053**	247 861	✓✓	✓✓	✓
At fair value through income					
Collective investment scheme liabilities	**29 596**	28 441	✓✓	✓	✓
Subordinated call notes	**4 431**	4 374	✓	✓✓	
Carry positions	**6 613**	4 272	✓	✓✓	
Preference shares[1]	**–**	1 020	✓	✓✓	
Other	**113**	110		✓	✓
Derivative financial instruments					
Held for trading	**2 318**	2 255	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable convertible preference shares	**254**	254		✓✓	
Cumulative redeemable preference shares	**1 017**	–		✓✓	
Other	**1 736**	2 166		✓	
Other payables (excluding premiums received in advance and deferred revenue liabilities)					
Payables arising from insurance contracts and investment contracts with DPF	**5 829**	5 762			✓
Payables arising from investment contracts	**1 081**	981			✓
Unsettled trades	**11 119**	606			✓
Commission creditors	**983**	941		✓	✓
Other payables at amortised cost	**4 475**	4 532		✓	✓
Insurance contract liabilities	**125 783**	117 931	*	*	*
Investment contracts with DPF liabilities	**23 800**	24 550	✓✓	✓✓	✓✓
Other non-financial liabilities	**9 155**	7 519	N/A	N/A	N/A
Total liabilities	**479 356**	453 575			

[1] Preference shares were designated at fair value through income under IAS 39. On the adoption of IFRS 9 this liability was reclassified to amortised cost.

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 36.

40 Market risk *continued*

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

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

Furthermore, the Group is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

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

Market risk governance

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

The executive BSM is responsible for the Group's market risk management, with the Board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

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

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

Market risk management per product

Individual and group contracts with DPF

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. Separate investment portfolios are managed for each product.

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

40 Market risk *continued*

Market risk management per product *continued*

***Individual and group contracts with DPF** continued*

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the Group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with DPF and continuous guarantees

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

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

Market-related/unit-linked business

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

Policyholders carry the investment risk; however, the Group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the Group's investment managers, which is supported by technical as well as fundamental analysis.

40 Market risk *continued*

Market risk management per product *continued*

Individual contracts offering investment guarantees

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

The Group also carries conventional business that offers minimum guarantees on maturity, surrender and death, with different forms of guarantees that apply in each event.

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge for these policies is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only to specific terms.

On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms. The minimum increase represents an inflation-related embedded financial guarantee.

The risk of being unable to meet guarantees is managed by holding a specific liability, as well as additional statutory capital, for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, in accordance with actuarial guidance (APN 110). Stochastic modelling is used to quantify the reserves and capital required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The stochastic model is calibrated to market data. The shareholders' exposure to fluctuations in this liability is mitigated by the use of hedging strategies, subject to available instruments and the overall risk profile of the business.

Non-profit annuity business

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

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the Group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds or bank-issued matching structures. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R14 million (2018: R15 million) for Momentum Metropolitan Life.

The liability valuation calculation for Momentum Metropolitan Life annuities is based on the risk-free yield curve. The average rate that produces the same result is 11.3% (2018: 11.4%).

40 Market risk *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

The Group issues guaranteed endowment policies. The majority of these contracts are five-year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The interest rate exposure on these policies is hedged through appropriate interest sensitive instruments.

A variation on guaranteed endowment policies is contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets including equity-linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the Group's reinsurance policies.

Other non-profit business

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

Shareholder cash flows in respect of individual contracts with investment components

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

40.1 Market risk management per risk factor

Equity risk

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

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

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

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

40 Market risk *continued*

40.1 Market risk management per risk factor *continued*

***Equity risk** continued*

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the Momentum Metropolitan Private Equity Investments Committee, represented by specialist investment professionals and independent Momentum Metropolitan representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to the sensitivity analysis in note 40.5.

40.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

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

40 Market risk *continued*

40.2 Interest rate risk *continued*

Instrument class 2019	Carrying amount Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
At fair value through income					
Debt securities	**127 680**	**49 345**	**76 283**	**2 052**	**7.9**
Funds on deposit and other money market instruments	**28 707**	**18 001**	**10 701**	**5**	**7.3**
Derivative financial assets	**2 449**	**–**	**2 449**	**–**	**N/A**
Derivative financial liabilities	**(2 318)**	**–**	**(2 318)**	**–**	**N/A**
At amortised cost					
Debt securities	**387**	**1**	**386**	**–**	**14.9**
Funds on deposit and other money market instruments	**78**	**15**	**63**	**–**	**1.9**
Cash and cash equivalents	**27 147**	**23 985**	**1 788**	**1 374**	**4.5**
Loans at amortised cost (2018: Loans and receivables)	**16 399**	**3 336**	**326**	**12 737**	**8.0**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 896**	**1**	**16**	**4 879**	**N/A**
	205 425	**94 684**	**89 694**	**21 047**	
2018					
Designated at fair value through income					
Debt securities	108 618	43 188	64 391	1 039	7.2
Funds on deposit and other money market instruments	27 524	22 234	5 280	10	7.2
Derivative financial assets	2 910	–	2 910	–	N/A
Derivative financial liabilities	(2 255)	–	(2 255)	–	N/A
Held-to-maturity	437	39	398	–	18.4
Cash and cash equivalents	25 812	21 812	2 307	1 693	5.5
Loans and receivables	5 433	3 595	354	1 484	6.4
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 631	1	–	4 630	N/A
	173 110	90 869	73 385	8 856	

Liability exposure to interest rates is reflected in note 11.

40 Market risk *continued*

40.3 Currency risk

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

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

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

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

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

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the Group, are included in the Group's statement of financial position at 30 June:

2019	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*17.9473*	*14.1084*	*16.0651*			
Investment securities							
At fair value through income							
Equity securities	370	1 773	12 490	2 574	2 642	1 687	21 536
Debt securities	680	182	3 907	884	–	337	5 990
Funds on deposit and other money market instruments	270	–	92	–	–	11	373
Unit-linked investments	–	4 868	35 789	939	19	95	41 710
Investments in associates	–	10	691	–	–	–	701
Derivative financial instruments	–	–	(5)	1	–	–	(4)
Financial assets at amortised cost							
Debt securities	318	–	–	–	–	1	319
Funds on deposit and other money market instruments	50	–	–	–	–	15	65
Loans and accounts receivable	17	37	121	34	48	145	402
Cash and cash equivalents	291	216	3 850	819	56	371	5 603
Other financial assets	96	–	372	–	–	275	743
	2 092	7 086	57 307	5 251	2 765	2 937	77 438

40 Market risk *continued*

40.3 Currency risk *continued*

2018	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*18.1159*	*13.7088*	*16.0000*			
Investment securities							
Designated at fair value through income							
Equity securities	525	1 855	14 842	1 954	1 868	1 585	22 629
Debt securities	1 046	203	3 274	1 358	–	27	5 908
Funds on deposit and other money market instruments	332	2	33	–	–	94	461
Unit-linked investments	–	2 321	40 025	1 009	17	91	43 463
Investments in associates	–	21	825	–	–	–	846
Derivative financial instruments	–	–	110	–	4	–	114
Held-to-maturity	365	–	–	–	–	12	377
Loans and receivables	39	7	298	25	13	116	498
Cash and cash equivalents	366	477	4 524	802	163	204	6 536
Other financial assets	137	12	305	–	–	2	456
	2 810	4 898	64 236	5 148	2 065	2 131	81 288

The assets above generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

African exchange rates representing material balances above are:

Closing exchange rate	Botswana	Ghana	Kenya	Nigeria
2019	**1.3290**	**2.5818**	**0.1382**	**0.0392**
2018	1.3135	2.8498	0.1358	0.0379

40 Market risk *continued*

40.4 Property risk

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

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

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

	2019 Rm	2018 Rm
Investment properties	**8 103**	8 614
Owner-occupied properties	**4 629**	3 864
Properties under development	**192**	136
Collective investment schemes > 55% property exposure (refer to Annexure B)	**5 851**	3 627
	18 775	16 241
Percentage of total assets	**3.7%**	3.4%

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

The Group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2019. The carrying amount of unlet and vacant investment property as at 30 June 2019 was R636 million (2018: R705 million).

40.5 Sensitivity to market risk

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

	Equity prices		Interest rates	
2019	Increase by 10% Rm	Decrease by 10% Rm	Increase by 100 bps Rm	Decrease by 100 bps Rm
Increase/(decrease) in earnings and equity	**256**	**(283)**	**55**	**(92)**
Restated 2018[1]				
Increase/(decrease) in earnings and equity	344	(395)	(61)	(293)

[1] Prior year sensitivities have been restated to be on the same basis as 2019.

40 Market risk *continued*

40.5 Sensitivity to market risk *continued*

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with the Group's current practice and accounting policy, the investment variances from insurance contracts were stabilised. As at 30 June 2019, the Group's investment stabilisation reserve had a balance of R713 million (2018: R611 million).
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

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

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

Currency sensitivity

The impact of changes in currency on earnings and equity for the Group is not considered to be material. Refer to note 40.3 for more details on the Group's currency exposure.

41 Credit risk

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

Credit risk could also arise from the decrease in value of an asset because of a deterioration of creditworthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, reinsurance debtors, loans to policyholders and other financial assets at amortised cost in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk. Where instruments are held in cell captive arrangements, where the cell owner takes the risk, the credit risk is also transferred.

41 Credit risk *continued*

Credit risk governance

The governance of credit risk is comprehensively set out in the Capital and Investment Committee (CIC) charter. The primary responsibility of the CIC is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the Group in respect of shareholders. The CIC charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of directors. The operational responsibility has been delegated to the CIC, executive management and the credit risk management function. The product management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

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

- Quality of the credit portfolio
- Stress quantification
- Credit defaults against expected losses
- Credit concentration risk
- Appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Board Risk, Capital and Compliance committee.

Managing credit risk

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

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

The following are taken into account in the approval process:

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

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

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

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

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

41 Credit risk *continued*

Concentration risk

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

Unit-linked investments

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

Derivative contracts

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

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

Financial assets at amortised cost

Due from agents, brokers and intermediaries

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

Refer to note 6.7 for impairment details.

41 Credit risk *continued*

Financial assets at amortised cost *continued*

Policy loans

The Group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy.

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

Reinsurance

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

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

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

Credit risk exposure

For the Group's maximum exposure to credit risk refer to note 6.7.

Financial assets and liabilities designated at fair value through income

The current year and cumulative fair value movements, on instruments that would have otherwise been classified as at amortised cost or fair value through other comprehensive income under IFRS 9 (2018: Loans and receivables or payables under IAS 39), but which have been designated at fair value through income, were due to market movements in the current year. The prior year fair value movement included R24 million loss attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

Moody's confirmed the credit ratings of MML (IFS international scale rating of Baa2 and national scale rating of Aaa.za) and Guardrisk (IFS rating of Baa3 and national scale rating of Aaa.za) with a stable outlook in November 2018. The RSA sovereign credit rating also remained stable since the last rating action in March 2018.

Security and credit enhancements

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

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

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

41 Credit risk *continued*

Security and credit enhancements *continued*

Linked notes

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

Financial assets at amortised cost

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Policy loans of R1 269 million (2018: R1 383 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 6.4. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables

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

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MOMENTUM METROPOLITAN HOLDINGS LTD

Statement of financial position

At 30 June 2019

	2019 Rm	2018 Rm	Notes
ASSETS			
Interest in subsidiary companies	**24 792**	22 862	2
Financial instruments	**1 160**	1 587	
Financial assets at fair value through income	**4**	–	3
Loans and receivables	**–**	1 587	4
Financial assets at amortised cost	**1 156**	–	4
Cash and cash equivalents	**45**	26	5
Total assets	**25 997**	24 475	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	**17 601**	17 601	6
Other components of equity	**78**	55	
Retained earnings	**6 938**	6 540	
Total equity	**24 617**	24 196	
LIABILITIES			
Financial instruments	**254**	254	
Financial liabilities at amortised cost	**254**	254	7
Other payables	**1 125**	24	9
Current income tax liability	**1**	1	10.1
Total liabilities	**1 380**	279	
Total equity and liabilities	**25 997**	24 475	

Income statement

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Investment income – amortised cost[1]	**67**	–	
Investment income – other	**1 665**	3 855	
Net income	**1 732**	3 855	11
Impairment expenses	**178**	63	12
Other expenses	**41**	21	13
Expenses	**219**	84	
Results of operations	**1 513**	3 771	
Finance costs	**(37)**	(37)	14
Profit before tax	**1 476**	3 734	
Income tax	**(4)**	(18)	10.2
Earnings for year attributable to owners of the Company	**1 472**	3 716	

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

Statement of comprehensive income

For the year ended 30 June 2019

	2019 Rm	2018 Rm
Earnings for year	**1 472**	3 716
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the Company	**1 472**	3 716

Statement of changes in equity

For the year ended 30 June 2019

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the Company Rm	Notes
Balance at 1 July 2017	17 594	5 246	55	22 895	
Total comprehensive income	–	3 716	–	3 716	
Shares repurchased	–	(974)	–	(974)	
Dividend paid	–	(1 448)	–	(1 448)	
Conversion of preference shares	7	–	–	7	6
Balance at 1 July 2018	**17 601**	**6 540**	**55**	**24 196**	
IFRS 9 opening adjustment[1]	**–**	**(7)**	**–**	**(7)**	
Restated opening balance	**17 601**	**6 533**	**55**	**24 189**	
Total comprehensive income	**–**	**1 472**	**–**	**1 472**	
Employee shares scheme – value of services provided	**–**	**–**	**23**	**23**	
Shares repurchased	**–**	**(544)**	**–**	**(544)**	
Dividend paid	**–**	**(523)**	**–**	**(523)**	
Balance at 30 June 2019	**17 601**	**6 938**	**78**	**24 617**	

[1] The Company adopted IFRS 9 in the current year. Refer to note 21 for more detail.

Statement of cash flows

For the year ended 30 June 2019

	2019 Rm	2018 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**1 134**	567	15.1
Dividends received	**1 664**	3 170	
Interest received	**67**	78	11
Income tax paid	**(4)**	(16)	15.2
Interest paid	**(37)**	(37)	15.3
Net cash inflow from operating activities	**2 824**	3 762	
Cash flow from investing activities			
Investments in subsidiary companies	**(1 939)**	(555)	
Loans advanced to related parties	**(88)**	(802)	
Loans repaid by related parties	**289**	27	
Net cash outflow from investing activities	**(1 738)**	(1 330)	
Cash flow from financing activities			
Shares repurchased and cancelled	**(544)**	(974)	
Dividends paid	**(523)**	(1 448)	
Net cash outflow from financing activities	**(1 067)**	(2 422)	
Net cash flow	**19**	10	
Cash and cash equivalents at beginning	**26**	16	
Cash and cash equivalents at end	**45**	26	5

Notes to the financial statements

For the year ended 30 June 2019

1 Basis of preparation and accounting policies

The basis of preparation and accounting policies of the Company are the same as that of the Group, as set out in the Group financial statements. These financial statements should be read in conjunction with the Group financial statements.

	2019 Rm	2018 Rm
2 Interest in subsidiary companies		
Cost less impairment	**24 172**	22 203
Loans to subsidiary companies (Annexure A)	**620**	659
	24 792	22 862
Opening balance	**22 862**	21 843
Cost of interest in subsidiaries acquired	**2 140**	1 307
Less: impairment charge (refer to note 12)	**(171)**	(63)
Movements in loans to subsidiary companies	**(39)**	(225)
Closing balance	**24 792**	22 862

General

Details of interests in subsidiary companies are disclosed in Annexure A.

Loans to subsidiary companies

The loans to subsidiary companies are not of a commercial nature and are therefore interest-free, with no fixed repayment terms. These loans are intended to provide the subsidiaries with a long-term source of additional capital. The Company can recall these loans when cash is required. Refer to note 4 for disclosure on impairment of loans to subsidiary companies.

Additions to the cost of subsidiaries and other movements

Momentum Metropolitan Strategic Investments (Pty) Ltd (MMSI): The Company acquired additional shares in MMSI for R1 528 million during the current year (2018: R645 million).

Metropolitan International Holdings (Pty) Ltd (MIH): The Company acquired additional shares in MIH for R191 million during the current year (2018: R662 million).

Metropolitan International Support (Pty) Ltd (MIS): In the prior year the Company capitalised R116 million of its loan to MIH. MIS is a subsidiary of MIH.

Momentum Metropolitan Infrastructure and Operations (Pty) Ltd (MM I&O). The Company acquired additional shares in MM I&O for R151 million during the current year. The Company capitalised R201 million of its loan to MM I&O during the current year.

Momentum Trust (Pty) Ltd (MT): The Company acquired additional shares in MT for R68 million during the current year.

Impairment

Management assessed all subsidiaries for impairment indicators with reference to the embedded value as published in the “Report on group embedded value” in the Group financial statements, and the directors valuations. No impairment indicators were noted for the insurance subsidiaries. Where the directors valuations were used, the valuations used cash flow projections which are based on financial budgets approved by management and the Board covering a five-year period. In 2019, the expected cash flows were discounted at a risk discount rate of 15% (2018: 15%)

2 **Interest in subsidiary companies** *continued*

The table below provides the sensitivity to a change in risk discount rate and inflation by 1%.

2019	Inflation decrease by 1% Rm	Base inflation Rm	Inflation increase by 1% Rm
Risk discount rate decrease by 1%	**540**	**591**	**652**
Base risk discount rate	**488**	**527**	**573**
Risk discount rate increase by 1%	**445**	**476**	**512**

2018	Inflation decrease by 1% Rm	Base inflation Rm	Inflation increase by 1% Rm
Risk discount rate decrease by 1%	469	513	466
Base risk discount rate	424	458	498
Risk discount rate increase by 1%	386	414	445

The Company impaired the investment in Metropolitan Collective Investments (Pty) Ltd by R8 million in the current year. In the prior year the Company impaired the investment in Momentum Metropolitan Finance Company (Pty) Ltd (R63 million).

The Company impaired the investment in MM I&O by R112 million in the current year.

The Company impaired the investment in MT by R51 million in the current year.

	2019 Rm	2018 Rm
3 Financial assets at fair value through income		
Equity securities	**4**	–
	4	–

- Assets at fair value through income for equity securities are all open-ended. This category includes financial instruments with no fixed maturity date. Equities are mandatorily at fair value through income.
- Above equities are level 3.
- A schedule of equity securities is available for inspection at the Company's registered office.

Notes to the financial statements continued

For the year ended 30 June 2019

		2019 Rm	2018 Rm
4	**Financial assets at amortised cost**		
	Accounts receivable	**7**	62
	Less: provision for impairment[1]	**(7)**	–
	Loans to related parties	**1 155**	1 524
	Loans to subsidiary companies (Annexure A)	**1 184**	1 520
	Less: provision for impairment on loans to subsidiary companies	**(317)**	(310)
	Loans to associates	**1**	1
	Preference shares	**24**	50
	Empowerment partners	**263**	263
	Strategic unsecured loans	**1**	1
		1 156	1 587
	Current	**1 132**	1 537
	Non-current	**24**	50
		1 156	1 587

Credit risk balances – expected credit loss	Stage 1	Stage 2	Stage 3	Total
ASSETS				
Accounts receivable	**–**	**–**	**7**	**7**
Less: provision for impairment[1]	**–**	**–**	**(7)**	**(7)**
Loans to related parties	**706**	**–**	**449**	**1 155**
Loans to subsidiary companies (Annexure A)	**418**	**–**	**766**	**1 184**
Less: provision for impairment on loans to subsidiary companies	**–**	**–**	**(317)**	**(317)**
Loans to associates	**1**	**–**	**–**	**1**
Preference shares	**24**	**–**	**–**	**24**
Empowerment partners	**263**	**–**	**–**	**263**
Strategic unsecured loans	**1**	**–**	**–**	**1**
Total financial assets at amortised cost	**707**	**–**	**449**	**1 156**

[1] With the implementation of IFRS 9, the expected credit loss on accounts receivable is also disclosed. The prior year was disclosed in terms of IAS 39 and was not restated.

4 Financial assets at amortised cost *continued*

Reconciliation of expected credit losses	Accounts receivable	Loans	Total
Balance at beginning	–	(310)	(310)
IFRS 9 opening retained earnings adjustment	(7)	–	(7)
Adjusted opening balance	(7)	(310)	(317)
Additional provision (refer to note 12)	–	(7)	(7)
Balance at end	(7)	(317)	(324)

	2018 Rm
Reconciliation of provision for impairment	
Opening balance	310
Additional provisions for current year (refer to note 12)	–
Closing balance	310

Reconciliation of expected credit losses	12 month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2 and 3)	Total
Accounts receivable			
Adjusted opening balance	–	(7)	(7)
Movement recognised in the income statement	–	–	–
Closing balance	–	(7)	(7)
Loans			
Adjusted opening balance	–	(310)	(310)
Movement recognised in the income statement	–	(7)	(7)
Closing balance	–	(317)	(317)

Notes to the financial statements continued

For the year ended 30 June 2019

4 Financial assets at amortised cost *continued*

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

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

4 Financial assets at amortised cost *continued*

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

Impairment information	Criteria
Accounts receivable	Impairment of accounts receivable is based on the recoverability of balances grouped together based on shared credit risk characteristics, for example instrument type. Balances generally relate to amounts where the timing of settlement is within one month. A historic payments as well as forward looking information is also taken into account.
Loans	For related party loans the solvency of the counterparty is taken into account as well as any collateral held.

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

4 Financial assets at amortised cost *continued*

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. When the subsidiary is in a position to repay the loan, it will be payable on demand. The carrying amount therefore approximates fair value.

- Preference shares: Momentum Metropolitan Holdings Ltd acquired preference shares in Eris for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R4 million (2018: R8 million). The preference shares mature in 2020 (extended from 2019 in the current year). The carrying amount approximates fair value.

- Loans to empowerment partners: The loans to empowerment partners is R263 million (2018: R263 million) at 30 June 2019, which relates to A3 preference shares acquired on 2 December 2011 in Off The Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the Company that the Group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 31 December 2020 (after extending it under the same terms by 18 months in the current year). During the current year, the Company subscribed for a cumulative redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd which is linked to the A3 preference shares acquired in 2011.

  The fair value of loans to empowerment partners at 30 June 2019 approximates the carrying amount.

Impairment

The loans to subsidiary companies were impaired by R7 million in the current year.

Impairment of loans to subsidiaries are impaired if the borrowing company does not have sufficient accessible highly liquid assets available at reporting date. The expected credit loss is calculated by considering the means of the loan recovery, the quality of the subsidiary's underlying investments, as well as profitability expectations.

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

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

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

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

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

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

	2019 Rm	2018 Rm
5 Cash and cash equivalents		
Bank and other cash balances	**45**	26

The carrying amount approximates fair value due to its short-term nature.

6 Share capital and share premium

Authorised share capital of Momentum Metropolitan Holdings Ltd

2 billion ordinary shares of 0.0001 cents each

129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each

Issued share capital of Momentum Metropolitan Holdings Ltd

1.5 billion ordinary shares of 0.0001 cents each

28 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue

Number of shares in issue (million)	2019	2018
Opening balance	**1 529**	1 575
Share buy-back	**(31)**	(47)
Conversion of preference shares	**–**	1
Closing balance	**1 498**	1 529

Share capital and share premium	2019 Rm	2018 Rm
Opening balance	**17 601**	17 594
Conversion of preference shares	**–**	7
Closing balance	**17 601**	17 601

Further details of the preference shares and the share buy-back are disclosed in note 11.2 and note 15 respectively of the Group financial statements.

Notes to the financial statements continued

For the year ended 30 June 2019

		2019 Rm	2018 Rm
7	**Financial liabilities at amortised cost**		
	Cumulative redeemable convertible preference shares	**254**	254
	Due at beginning	**254**	261
	Accrued interest	**37**	37
	Interest paid	**(37)**	(37)
	Converted	**–**	(7)
	Due at end	**254**	254

Details of the cumulative redeemable convertible preference shares are disclosed in note 11.2 of the Group financial statements.

The estimated fair value of the A3 cumulative redeemable preference shares is R548 million (2018: R514 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2019, the expected cash flows were discounted at a current market rate of 12% (2018: 12%) (level 2). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. In the current year, the compulsory redemption date was extended by 18 months to 31 December 2020 under the same terms. During the current year, the Company subscribed for a cumulative, redeemable preference share in Off The Shelf Investments 108 (Pty) Ltd (a subsidiary of KTH) which is linked to the A3 preference shares. The dividends on the Off The Shelf Investment preference share aligns the A3 preference share dividend to the ordinary dividends. As a result of this, an IFRS 2 – Share-based payment BEE expense of R23 million has been recognised.

The extension was treated as a renegotiation of the original contract. The change in the liability to the present value of the additional cash flow resulting from the extension was not considered material.

		2019 Rm	2018 Rm
8	**Deferred income tax**		
	Deferred tax asset	**3**	3
	Tax losses and credits	**3**	3
	Deferred tax liability	**(3)**	(3)
	Revaluations	**(3)**	(3)
		–	–
	Movement in deferred tax		
	Balance at beginning	**–**	–
	Charge to income statement	**–**	–
	Revaluations	**15**	15
	Tax losses and credits	**(15)**	(15)
	Balance at end	**–**	–

8 Deferred income tax *continued*

Creation of deferred tax asset

Tax losses have been provided for as a deferred tax asset where, at year-end, there was certainty as to their recoverability.

A deferred tax asset of R3 million (2018: R3 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

	2019 Rm	2018 Rm
9 Other payables		
Other payables	**23**	24
Loans from subsidiary companies (Annexure A)	**1 102**	–
	1 125	24
Current	**1 125**	24

For accounts payable, the carrying amount approximates fair value due to its short-term nature.

The loans from subsidiary companies are interest-free, unsecured and payable on demand. The carrying amount therefore approximates fair value.

10 Income tax

10.1 Current income tax liability

	2019 Rm	2018 Rm
Movement in liability		
Balance at beginning	**1**	(1)
Charged to income statement	**4**	18
Paid during year	**(4)**	(16)
Balance at end	**1**	1

10.2 Income tax expense

	2019 Rm	2018 Rm
Current taxation		
Current year		
South African normal tax	**2**	3
Foreign countries – withholding tax	**2**	15
	4	18

	%	%
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Foreign tax	**0.2**	0.4
Non-taxable items	**(32.8)**	(28.3)
Non-deductable expenses	**4.9**	0.4
Effective rate	**0.3**	0.5

Notes to the financial statements continued

For the year ended 30 June 2019

		2019 Rm	2018 Rm
11	**Investment income**		
	Dividends received – subsidiary companies	**1 644**	3 757
	Interest income – amortised cost using the effective interest rate method	**67**	78
	Financial assets at amortised cost (2018: Loans and receivables)	**61**	66
	Cash and cash equivalents	**6**	12
	Other income	**21**	20
		1 732	3 855
12	**Impairment expenses**		
	Impairment of loans to subsidiary companies at amortised cost	**7**	–
	Impairment of investments in subsidiaries	**171**	63
		178	63
13	**Other expenses**		
	Consulting fees	**–**	3
	Legal fees	**–**	3
	Directors' remuneration	**15**	3
	Employee benefit expense	**23**	–
	Other expenses	**1**	12
	Other indirect taxes	**2**	3
		41	24
14	**Finance costs**		
	Interest expense on financial liabilities at amortised cost		
	Redeemable preference shares	**37**	37
15	**Cash flow from operating activities**		
15.1	**Cash utilised in operations**		
	Profit before tax	**1 476**	3 734
	Adjusted for		
	Items disclosed in other notes		
	Dividends received	**(1 664)**	(3 172)
	Interest received	**(67)**	(78)
	Finance costs	**37**	37
	Non-cash-flow items		
	Employee benefit obligations	**–**	(1)
	Impairment charges	**178**	63
	Share-based payments and other employee benefit expenses	**23**	–
	Changes in operating assets and liabilities		
	Financial assets at amortised cost (2018: Loans and receivables)	**55**	6
	Assets at fair value through income	**(4)**	–
	Employee benefit obligations	**–**	(22)
	Other operating liabilities	**1 100**	–
		1 134	567

	2019 Rm	2018 Rm
15 Cash flow from operating activities *continued*		
15.2 Income tax paid		
Due at beginning	**1**	1
Charged and provided	**(4)**	(18)
Due at end	**(1)**	1
	(4)	(16)
15.3 Interest paid		
Redeemable preference shares		
Paid 30 September	**(19)**	(19)
Paid 31 March	**(18)**	(18)
	(37)	(37)

16 Related party transactions

16.1 Holding company

Shares in Momentum Metropolitan Holdings Ltd, the ultimate holding company in the Group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 259 of the Group financial statements. Significant subsidiary companies are listed in Annexure A. Other related parties include Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 26.8% in Momentum Metropolitan Holdings Ltd), directors, key personnel and close members of their families. Refer to note 30.1 in the Group financial statements for more details.

16.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the Company. The remuneration, shares held and transactions of the Group executive committee members are disclosed in note 30.2 and Annexure F of the Group financial statements.

16.3 Transactions with related parties

Loans are advanced between Momentum Metropolitan Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates are included in note 3.

Notes to the financial statements continued

For the year ended 30 June 2019

16 Related party transactions *continued*

16.3 Transactions with related parties *continued*

Details of other transactions with related parties included in the financial statements are listed below.

	2019 Rm	2018 Rm
Dividends from subsidiaries – Momentum Metropolitan Life Ltd	**1 536**	3 047
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	**–**	37
Dividends from subsidiaries – Metropolitan Lesotho Ltd	**25**	65
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	**22**	22
Dividends from subsidiaries – Metropolitan Collective Investments Ltd	**–**	15
Dividends from subsidiaries – Momentum Metropolitan Finance Company (Pty) Ltd	**6**	4
Dividends from subsidiaries – Metropolitan Health Holdings (Pty) Ltd	**55**	563
Dividends from subsidiaries – Cshell 448 (Pty) Ltd	**–**	4
Interest received – Momentum Metropolitan Life Ltd	**34**	35
Interest received – Eris Property Fund (Pty) Ltd	**4**	8
Interest received – Off The Shelf Investments (Pty) Ltd	**23**	23
Finance costs – KTH	**37**	37

Refer to note 4 for loans with related parties.

Refer to note 30 of the Group financial statements for further details on related party transactions with directors and key management personnel.

17 Contingent liabilities

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

18 Capital commitments

The Company has given a guarantee in favour of Rand Merchant Bank (RMB) that MMSI will repay its obligations due to RMB.

19 Risk management policies

Details of financial instruments and risk management strategies are disclosed in notes 6 and 34 of the Group financial statements. The more important financial risks to which the Company is exposed are credit risk and interest rate risk.

The Company's capital is managed with that of the Group. The capital management of the Group is discussed in note 35 of the Group financial statements.

19 Risk management policies *continued*

19.1 Classes of financial assets and liabilities

The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates:

	2019 Rm	2018 Rm
Assets		
Carried at fair value through income	**4**	–
Equity securities		
Unlisted	**4**	–
Carried at amortised cost		
Financial assets at amortised cost (2018: Loans and receivables)	**1 156**	1 587
Loans	**1 156**	1 525
Accounts receivable	**–**	62
Cash and cash equivalents	**45**	26
Other non-financial assets	**24 792**	22 862
Total assets	**25 997**	24 475
Liabilities		
Carried at amortised cost		
Financial liabilities	**254**	254
Cumulative redeemable preference shares	**254**	254
Other payables	**1 125**	24
Loans from subsidiary companies	**1 102**	–
Other payables	**23**	24
Other non-financial liabilities	**1**	1
Total liabilities	**1 380**	279

The definitions of classes of financial assets and liabilities are disclosed in Annexure D of the Group financial statements.

19.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The credit risk of the Company is managed similarly to that of the Group as disclosed in note 41 in the Group financial statements.

The Company's maximum exposure to credit risk is through the following classes of assets:

	2019 Rm	2018 Rm
Financial assets at amortised cost (2018: Loans and receivables)	**1 156**	1 525
Loans	**1 156**	1 525
Cash and cash equivalents	**45**	26
Total assets bearing credit risk	**1 201**	1 551

19 Risk management policies *continued*

19.2 Credit risk *continued*

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the Group's credit risk exposure policy described in the Group financial statements.
- Security held on loans is disclosed in note 3.

Using S&P ratings (or the equivalent thereof when S&P ratings are not available), cash and cash equivalents have an AA (2018: AA) credit rating. Financial assets at amortised cost consist mainly of loans to related parties and are unrated.

19.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, arising from the possibility that the Company could be required to pay its liabilities earlier than expected.

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 31 December 2020 (extended by 18 months in the current year), is assumed. The Company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

Other payables include loans from subsidiary companies which are payable on demand.

The following table indicates the maturity analysis of the liabilities:

		Undiscounted cash flows		
	Carrying amount Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm
2019				
Amortised cost				
Cumulative redeemable preference shares	**254**	**291**	**–**	**291**
Other payables	**1 125**	**1 125**	**1 125**	**–**
Other liabilities	**1**	**1**	**1**	**–**
Total liabilities	**1 380**	**1 417**	**1 126**	**291**
2018				
Amortised cost				
Cumulative redeemable preference shares	254	291	291	–
Other payables	24	24	24	–
Other liabilities	1	1	1	–
Total liabilities	279	316	316	–

19 Risk management policies *continued*

19.4 Market risk

Introduction

- Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key component of market risk applicable to the Company is interest rate risk.

19.4.1 Interest rate risk

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

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the Company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The Company is exposed to floating interest rates that result in cash flow interest rate risk. Financial assets at amortised cost (empowerment loans) have a weighted average interest rate of 8.9% (2018: 8.5%). Cash and cash equivalents have a weighted average interest rate of 6% (2018: 5%).

19.4.2 Sensitivity to market risks

The Company's earnings and net asset value are exposed to market risks. The Company has identified that changes in interest rates have the most significant effect on earnings and equity.

The Company is exposed to floating interest rate changes only. Cash requirements fluctuate during the course of the year and are therefore of a short-term nature. Interest rate changes with respect to cash and cash equivalents will therefore not have a significant impact on earnings.

The Company has no foreign currency exposure.

20 Financial assets measurement

Financial assets summarised by measurement category in terms of IFRS 9[1]	Fair value through income Mandatorily Rm	Amortised cost[2] Rm	Total Rm
2019			
Equity securities	4	–	4
Loans to associates	–	1	1
Preference shares	–	24	24
Empowerment partners	–	263	263
Strategic unsecured loans	–	1	1
Intercompany loans to subsidiaries	–	1 184	1 184
Provision for impairment on loans to subsidiary companies	–	(317)	(317)
Cash and cash equivalents	–	45	45
Total financial assets	4	1 201	1 205

[1] Comparative information not required in terms of IFRS 9.
[2] The carrying amount of financial assets carried at amortised cost approximates fair values.

21 Adoption of new standards

21.1 IFRS 9 transitional adjustments

Statement of financial position	30.06.2018 as per IAS 39 Rm	IFRS 9 classification	IFRS 9 ECL adjustment Rm	01.07.2018 as per IFRS 9 Rm
Assets				
Interest in subsidiary companies	22 862		–	22 862
Loans and receivables	1 587	(1 587)	–	–
Financial assets at amortised cost	–	1 587	(7)	1 580
Cash and cash equivalents	26		–	26
Total assets	24 475	–	(7)	24 468
Equity attributable to owners of the Company				
Share capital and share premium	17 601		–	17 601
Other components of equity	55		–	55
Retained earnings	6 540		(7)	6 533
Total equity	24 196		(7)	24 189
Liabilities				
Financial liabilities at amortised cost	254		–	254
Other payables	25		–	25
Total liabilities	279		–	279
Total equity and liabilities	24 475		(7)	24 468

The Company has implemented IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 July 2018 has been adjusted for any differences in the carrying amounts of financial instruments.

The standard introduces an approach to the classification of financial instruments that is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). The standard amends the previous requirements in three main areas: (a) classification and measurement of financial assets, (b) impairment of financial assets, mainly by introducing a forward-looking expected credit loss (ECL) impairment model and (c) hedge accounting including removing some of the restrictions on applying hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost
- Fair value through other comprehensive income
- Fair value through income

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

No significant changes were introduced for the classification and measurement of financial liabilities, except for financial liabilities that are designated at fair value where entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The standard has introduced a new ECL impairment model that will require more timely recognition of ECLs than under IAS 39. An impairment loss may now be recognised prior to a loss event occurring. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Impact on adoption of IFRS 9

The effects of the adoption of IFRS 9 on the statement of financial position as at 1 July 2018 is shown in the table above.

21.2 Impact on adoption of IFRS 15

IFRS 15 is effective from periods beginning on or after 1 January 2018. The Company has implemented IFRS 15 on 1 July 2018, retrospectively without restating comparative figures.

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The Company has assessed the impact of the adoption of IFRS 15 to determine the impact on the opening balance and concluded that there was no significant impact for the Company. The opening retained earnings as at 1 July 2018 has therefore not been adjusted for any change in revenue recognition.

Annexure A

Significant subsidiary companies

Companies	Country of incorporation, where not South Africa	Interest held 2019 %	Interest held 2018 %	Cost 2019 Rm	Cost 2018 Rm	Loans to subsidiaries[1] 2019 Rm	Loans to subsidiaries[1] 2018 Rm
Momentum Metropolitan Life Ltd (previously MMI Group Ltd)		**100**	100	**18 129**	18 129		
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
Momentum Health Solutions (Pty) Ltd (previously MMI Health (Pty) Ltd)		**100**	100				
Momentum Consult (Pty) Ltd		**100**	100				
Momentum Life Botswana Ltd	Botswana	**100**	100				
Momentum Asset Management (Pty) Ltd		**100**	100				
Momentum Global Investment Management Ltd	United Kingdom	**100**	100				
Momentum Collective Investments (RF) (Pty) Ltd		**100**	100				
Momentum Alternative Investments (Pty) Ltd		**100**	100				
Momentum International MultiManagers (Pty) Ltd		**100**	100				
Momentum Wealth (Pty) Ltd		**100**	100				
Momentum Wealth International Ltd	Guernsey	**100**	100				
102 Rivonia Road (Pty) Ltd		**80**	80				
Momentum Short Term Insurance Company Ltd		**100**	100				
MMI Short Term Insurance Administration (Pty) Ltd		**100**	100				
Momentum Multiply (Pty) Ltd (previously MMI Multiply (Pty) Ltd)		**100**	100				
Metropolitan Odyssey Ltd		**100**	100	**36**	36		
Metropolitan International Holdings (Pty) Ltd		**100**	100	**2 090**	1 899	**436**	426
Subsidiary companies							
Momentum Metropolitan Namibia Ltd (previously MMI Holdings Namibia Ltd)	Namibia	**96.5**	96.5				
Cold Trade (Pty) Ltd	Namibia	**100**	100				
Subtotal				**20 255**	20 064	**436**	426

Companies *continued*	Country of incor-poration, where not South Africa	Interest held 2019 %	Interest held 2018 %	Cost 2019 Rm	Cost 2018 Rm	Loans to subsidiaries[1] 2019 Rm	Loans to subsidiaries[1] 2018 Rm
Subtotal carried forward				**20 255**	20 064	**436**	426
Metropolitan Life (Mauritius) Ltd	Mauritius	**–**	100				
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	**100**	100				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Cannon Assurance Ltd	Kenya	**96**	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	**100**	100				
Metropolitan Life Swaziland Ltd	Swaziland	**67**	67				
Momentum Insurance (Swaziland) Ltd	Swaziland	**100**	100				
Metropolitan International Support (Pty) Ltd		**100**	100				
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	**66.7**	66.7				
Momentum Mozambique LDA	Mozambique	**66.7**	66.7				
Momentum Metropolitan Finance Company (Pty) Ltd (previously MMI Finance Company (Pty) Ltd)		**100**	100	**600**	600	**9**	20
Metropolitan Life International Ltd		**100**	100	**47**	47		
Metropolitan Life of Botswana Ltd	Botswana	**100**	100	**73**	73		
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120**	120		
Momentum Retirement Administrators (Pty) Ltd		**100**	100				
Momentum Metropolitan Strategic Investments (Pty) Ltd (previously MMI Strategic Investments (Pty) Ltd)		**100**	100	**2 447**	918		
Subsidiary companies							
Momentum SP Reid Securities (Pty) Ltd		**100**	100				
Momentum Outcome-Based Solutions (Pty) Ltd		**100**	100				
Subtotal				**23 542**	21 822	**445**	446

Annexure A continued

Significant subsidiary companies

Companies *continued*	Country of incor-poration, where not South Africa	Interest held 2019 %	Interest held 2018 %	Cost 2019 Rm	Cost 2018 Rm	Loans to subsidiaries[1] 2019 Rm	Loans to subsidiaries[1] 2018 Rm
Subtotal carried forward				**23 542**	21 822	**445**	446
Guardrisk Life Ltd		**100**	100				
Guardrisk Life International Ltd	Mauritius	**100**	100				
Guardrisk Allied Products & Services (Pty) Ltd		**100**	100				
Guardrisk Insurance Company Ltd		**100**	100				
Guardrisk International Ltd PCC	Mauritius	**100**	100				
Momentum Metropolitan Holdings (UK) Ltd (previously MMI Holdings (UK) Ltd)	United Kingdom	**100**	100				
Subsidiary companies							
Exponential Ventures LLP	United Kingdom	**80**	80				
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	100				
Financial Partners Ltd	Hong Kong	**100**	100				
MET Collective Investments (RF) (Pty) Ltd		**100**	100	**26**	26		
Eris Property Group (Pty) Ltd		**76.3**	76.3	**407**	407		
Metropolitan Health (Pty) Ltd		**100**	100	**447**	447	**175**	213
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**51**	51				
MetHealth (Pty) Ltd		**100**	100				
Metropolitan Health Risk Management (Pty) Ltd		**51**	51				
Global Doctor Networks (Pty) Ltd		**91.4**	91.4				
Hello Doctor (Pty) Ltd		**100**	100				
Momentum Metropolitan Infrastructure and Operations (Pty) Ltd (previously MMI Infrastructure and Operations (Pty) Ltd)		**100**	100	**352**	–		
Momentum Trust Ltd		**100**	100	**76**	8		
Less: impairments				**(678)**	(507)		
Total interest in subsidiary companies				**24 172**	22 203	**620**	659

1 These loans have been provided as a long-term source of additional capital for the subsidiary.

Other loans to/(from) subsidiaries	2019 Rm	2018 Rm
Momentum Metropolitan Strategic Investments (Pty) Ltd	**929**	929
Momentum Metropolitan Infrastructure and Operations (Pty) Ltd	**–**	200
Momentum Health Solutions (Pty) Ltd	**92**	132
Metropolitan Capital (Pty) Ltd	**155**	137
Eris Property Fund (Pty) Ltd	**8**	5
Momentum Metropolitan Life Ltd	**–**	117
	1 184	1 520
Less: impairments	**(317)**	(310)
Loans to subsidiary companies	**867**	1 210
Momentum Metropolitan Life Ltd	**(1 102)**	–
Loans from subsidiary companies	**(1 102)**	–

Annexure A continued

Significant subsidiary companies

At 30 June, the following collective investment schemes (CIS) were significant subsidiaries of the Group:

	Interest held		Carrying amount	
	2019 %	2018 %	2019 Rm	2018 Rm
Momentum IF Global Equity Class A USD Fund	**62.3**	66.2	**12 342**	14 616
Momentum MF Global Aggressive Sub Fund	**100**	100	**6 038**	6 592
Momentum Money Market Fund	**59.0**	52.3	**5 789**	4 685
Momentum Focus 6 Fund of Funds *(previously Momentum Enhanced Growth Fund of Funds)*	**84.9**	79.6	**4 879**	4 924
Momentum MF Global Balanced A USD Fund	**100**	100	**4 571**	5 347
Momentum SA Defensive Growth Fund	**100**	100	**4 569**	6 459
Momentum Bond Fund	**96.2**	94.6	**4 436**	3 369
Momentum MoM Specialist Equity Fund	**100**	100	**3 276**	3 846
Momentum Global Growth Fund IC Ltd	**97.5**	98.4	**3 233**	2 972
Momentum MoM Ultra Long-Term Value Fund	**87.7**	100	**2 896**	3 652
Momentum Enhanced Yield Fund	**48.1**	34.8	**2 660**	2 181
Momentum SA Real Growth Property Fund	**98.3**	100	**2 564**	1 651
Momentum Income Plus Fund	**43.9**	33.1	**2 513**	1 084
Momentum Trending Equity Fund	**99.7**	100	**2 369**	2 357
Momentum MoM Property Equity Fund	**96.5**	100	**2 360**	2 046
Momentum SA Flexible Fixed Interest Fund	**90.1**	94.6	**2 293**	1 345
Momentum Capped SWIX Index Fund	**100**	*	**2 209**	*
Momentum MoM Macro Value Fund	**100**	100	**1 903**	2 078
Momentum MoM Emerging Manager Growth Fund	**100**	100	**1 634**	1 883
Momentum MoM High Growth Fund	**77.8**	100	**1 611**	1 995
Momentum IF Global Fixed Income A USD Fund	**97.9**	98.5	**1 506**	1 749
Momentum Equity Fund *(previously Momentum Real Growth Equity Fund)*	**38.8**	39.7	**1 503**	1 696
Momentum Focus 7 Fund of Funds *(previously Momentum Enhanced Growth Plus Fund of Funds)*	**75.0**	73.4	**1 440**	1 361
Momentum MoM Opportunistic Equity Fund	**68.6**	100	**1 386**	2 111
Momentum Property Fund	**83.9**	80.3	**1 346**	1 576
Momentum Core Equity Fund *(previously Momentum Real Growth Core Equity Fund)*	**81.1**	*	**1 271**	*
Momentum International Equity Feeder Fund	**68.1**	67.2	**1 209**	1 214
Momentum IF Global Emerging Markets A USD Fund	**96.7**	97.5	**1 166**	1 224
Momentum Best Blend Flexible Income Fund	**60.8**	58.1	**1 095**	818
Momentum Focus 5 Fund of Funds *(previously Momentum Enhanced Diversified Growth Fund of Funds)*	**65.3**	65.2	**925**	1 021
Momentum MF Global Moderate Sub Fund	**100**	100	**898**	1 188
Momentum RCIS Multi Managed ZAR Capi Alpha QI Hedge Fund	**100**	**	**855**	**
Momentum Rubix QI	**100**	**	**841**	**
Momentum Value Equity Fund	**99.0**	100	**738**	2 526
Momentum RCIS Multi-Managed ZAR Equity Hedge QI Hedge Fund	**100**	**	**688**	**
Momentum Global Cautious Fund IC Ltd Class A	**77.0**	72.8	**618**	896
Momentum RCIS ZAR Diversified QI Fund of Hedge Funds	**100**	**	**615**	**
FGAM Global Growth Fund IC Ltd	**64.1**	62.6	**613**	604
Momentum MoM Real Return Fund	**100**	100	**580**	1 152
Momentum MF International Equity A USD Fund	**100**	100	**568**	722
Momentum MF International Equity	*****	94.2	*****	792
Perpetua MET Equity Fund	*****	86.1	*****	586
Momentum Focus 4 Fund of Funds *(previously Momentum Enhanced Stable Growth Fund of Funds)*	*****	59.0	*****	510
Subtotal			**94 006**	94 828

* This subsidiary was not considered to be significant in the prior year.
** This is a new investment for the current year.
*** This subsidiary is not considered to be significant in the current year.

Fund name	Domicile
Momentum IF Global Equity Class A USD Fund	**Luxembourg**
Momentum MF Global Aggressive Sub Fund	**Luxembourg**
Momentum MF Global Balanced A USD Fund	**Luxembourg**
Momentum IF Global Fixed Income A USD Fund	**Luxembourg**
Momentum IF Global Emerging Markets A USD Fund	**Luxembourg**
Momentum MF Global Moderate Sub Fund	**Luxembourg**
Momentum MF International Equity A USD Fund	**Luxembourg**
Momentum Global Cautious Fund IC Ltd Class A	**Guernsey**
FGAM Global Growth Fund IC Ltd	**Guernsey**
Momentum Global Growth Fund IC Ltd	**Guernsey**

Annexure B

Unconsolidated structured entities

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The Group considers collective investment schemes and other unit-linked investments to be structured entities. This annexure provides information on significant unconsolidated structured entities in which the Group holds an interest.

Collective investment schemes and other unit-linked investments

Unit-linked investments comprise local and foreign collective investment schemes as well as other unit-linked investments. Collective investment schemes are categorised into property, equity or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event of no one category meeting this threshold, it is classified as a mixed asset class. Money market collective investment schemes are categorised as such.

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the Group is the policyholder of an investment contract issued by other insurance companies. Where the Group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2019 Rm	2018 Rm
Collective investment schemes		
Local and foreign	**153 998**	154 464
Equity	**99 125**	97 436
Interest-bearing	**21 308**	18 599
Property	**5 851**	3 627
Mixed	**25 740**	32 759
Money market	**1 955**	2 034
Commodity	**19**	9
Other unit-linked investments	**11 237**	11 724
Local and foreign		
Equity	**6 404**	3 105
Interest-bearing	**1 214**	2 506
Mixed	**3 206**	5 627
Commodity	**413**	486
	165 235	166 188
At fair value through income: unit-linked investments	**146 921**	154 805
Investments in associates at fair value through income	**18 314**	11 383
	165 235	166 188

[1] Assets were reclassified in the current year as through further interrogation it was deemed more appropriate to disclose as such.

Detail on investments in associates at fair value through income

The Group holds a significant investment in the following associates at fair value through income:

2019	Carrying amount Rm	% interest held	Nature of relationship	Principal place of business
Fairtree Equity Prescient Fund[1]	3 540	30.3%	Standard investment	Bellville
Nedgroup Investments XS Diversified Fund of Funds[1]	2 157	49.0%	Standard investment	V&A Waterfront
Truffle SCI Institutional Equity Fund	1 996	76.0%	Standard investment	Sandton
Ampersand SCI CPI Plus 2% Fund of Funds	880	55.5%	Standard investment	Sandton
Warwick BCI International Fund of Funds[2]	538	43.7%	Standard investment	Bellville
2018				
Truffle SCI Institutional Equity Fund	2 154	76.6%	Standard investment	Sandton
Ampersand SCI CPI Plus 2% Fund of Funds	777	48.0%	Standard investment	Sandton
Ampersand SCI CPI Plus 4% Fund of Funds[3]	705	50.7%	Standard investment	Sandton

Summarised financial information relating to the associates above:

2019	Fairtree Equity Prescient Fund[1] Rm	Nedgroup Investments XS Diversified Fund of Funds[1] Rm	Truffle SCI Institutional Equity Fund Rm	Ampersand SCI CPI Plus 2% Fund of Funds Rm	Warwick BCI International Fund of Funds[2] Rm
Current assets	99	5	109	37	4
Non-current assets	11 588	4 397	2 519	1 549	1 230
Current liabilities	7	1	1	1	1
Non-current liabilities	11 680	4 401	2 627	1 585	1 233
Revenue	864	96	101	35	–
Earnings	1 424	707	55	301	175

2018	Truffle SCI Institutional Equity Fund Rm	Ampersand SCI CPI Plus 2% Fund of Funds Rm	Ampersand SCI CPI Plus 4% Fund of Funds Rm[3]
Current assets	89	47	30
Non-current assets	2 733	1 574	1 362
Current liabilities	11	1	1
Non-current liabilities	2 811	1 620	1 392
Revenue	93	64	42
Earnings	168	696	747

[1] This associate was not classified as an associate in the prior year due to the percentage holding in this investment.
[2] This associate was not considered to be significant in the prior year. Revenue below R1 million.
[3] This associate is not considered to be significant in the current year.

Annexure B continued

Unconsolidated structured entities

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the Group holds an interest:

				Carrying amount[1]		Income received[2]	
Name of entity	**Investment type**	**Nature and purpose of business**	**How is the entity financed?**	**2019 Rm**	**2018 Rm**	**2019 Rm**	**2018 Rm**
Superdrive Investments (RF) Ltd	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	**864**	861	**154**	72
Ivuzi Investments Ltd	Floating rate note/fixed rate notes	Asset Backed Commercial Paper Programme set up by Rand Merchant Bank to acquire assets in various forms namely listed and unlisted bonds and loans	The special purpose vehicle runs a mismatch between assets and liabilities and funds itself by issuing notes to institutional clients	**539**	*	**5**	*
Thekwini Fund 14 (RF) Ltd	Floating rate note/vanilla bonds	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**	527	**	1
South African Securitisation Programme (RF) Ltd	Floating rate note	Securitisation of rental and lease financed assets set up by Sasfin, Sunlyn and other entities approved by Sasfin	Funding received from the South African capital market	**	680	**	54
Thekwini Fund 13 (RF) Ltd	Floating rate note/fixed rate notes	Residential Mortgage Backed Securities Programme set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**	516	**	46
				1 403	2 584	**159**	173

* This listed securitisation was not considered to be significant in the prior year.
** This listed securitisation was not considered to be significant in the current year.
[1] Included in securities at fair value through income in the statement of financial position. The carrying amount represents the Group's maximum exposure.
[2] Consists of interest income and fair value gains/(losses).
[3] The Group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

Annexure C

Abbreviations and definitions

Abbreviations

ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
B-BBEE	Broad-based black economic empowerment
BSA	Bonus stabilisation accounts
CAR	Capital adequacy requirement
CGU	Cash-generating unit
DCF	Discounted cash flow
DPF	Discretionary participation features
ESA	Employer Surplus Account
EV	Embedded value
FCTR	Foreign Currency Translation Reserve
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSV	Financial soundness valuation
FTSE	Financial Times Stock Exchange
GCR	Global Credit Ratings
GLTD	Group long-term disability table
Group	Momentum Metropolitan Holdings Ltd and its subsidiaries
IASB	International Accounting Standards Board
IBNR	Incurred but not yet reported
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IFS	Insurer Financial Strength
IMA	Investment management agreement
JSE	Johannesburg Stock Exchange
KTH	Kagiso Tiso Holdings (Pty) Ltd
MML	Momentum Metropolitan Life Ltd
MMSI	Momentum Metropolitan Strategic Investments (Pty) Ltd
NSX	Namibian Stock Exchange
OTC	Over-the-counter
PA	Prudential Authority
PPFM	Principles and practices of financial management
PVP	Present value of future premiums
RDR	Risk discount rate
RMI	Rand Merchant Insurance Holdings Ltd
ROEV	Return on Embedded Value
S&P	Standard & Poor’s
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SARB	South African Reserve Bank
SENS	Stock Exchange News Service
UK	United Kingdom
VIF	Present value of in-force covered business
VNB	Value of new business

Annexure C *continued*

Abbreviations and definitions

Definitions

Adjusted net worth (ANW)
The ANW at 30 June 2019 is the excess of assets over liabilities on the IFRS basis. The ANW at 30 June 2018 is the excess of assets over liabilities on the previous statutory basis. In both cases, certain deductions for disregarded assets and impairments have been added back.

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

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

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

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

Capital adequacy requirement (CAR)
The CAR is the minimum statutory capital requirement for South African life insurance companies that was referenced by the previous statutory basis that was applicable at 30 June 2018. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets. CAR is not applicable under the new regulatory framework for South African insurers that applies at 30 June 2019.

Capitation contracts
Capitation contracts are those under which the Group accepts significant health benefit risk from medical schemes (the contract holder) by agreeing to indemnify the scheme against a defined set of the scheme benefits (the covered event) in return for a capitation fee.

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

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

Cash generating units (CGUs)
A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or groups of assets.

Definitions *continued*

Cell captive
A cell captive is a contractual arrangement entered into between the insurer (referred to as the “cell provider” or “promoter”) and the cell shareholder whereby the risks and rewards associated with certain insurance activities accruing to the cell shareholder, in relation to the insurer, are specified. Cell captives allow clients to purchase cell owner ordinary shares (or a “cell”) in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses, investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

Cell captive arrangements include:

- “First-party” cell arrangements where the risks that are being insured relate to the cell shareholder’s own operations or operations within the cell shareholder’s group of companies; and
- “Third-party” cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.
- Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a profit share to the insured based on claims experience and related expenses at the end of the policy period.
- “Promoter cell” includes assets and liabilities of the Group shareholders. Assets, liabilities, and equity of the first and third-party cell arrangements are excluded.

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

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 written by the life insurance subsidiaries (excluding Guardrisk); including individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business.

Annexure C *continued*

Abbreviations and definitions

Definitions *continued*

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

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

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

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

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

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

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

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

- the ANW of covered and non-covered business;
- plus the VIF less the opportunity cost of required capital; and
- plus the write-up to directors' value of non-covered business.

Embedded value earnings
Embedded value earnings are defined as the change in embedded value (after non-controlling interests) for the year, after adjustment for any capital movements such as dividends paid, capital injections and cost of treasury shares acquired or disposed of for the year.

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

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

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

Definitions *continued*

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

Non-covered business
Non-covered business includes the directors' valuations of the investment management entities, South African health operations, non-life insurance operations, the Guardrisk entities, as well as other non-insurance entities. The Group embedded value is also adjusted to allow for future holding company and international support expenses.

Normalised headline earnings
Normalised headline earnings comprise operating profit and investment income on shareholder assets. It excludes adjustments for Momentum Metropolitan shares held by policyholder funds, the amortisation of intangible assets relating to business combinations as well as BEE costs. It includes basis changes and investment variances.

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

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

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

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

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

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

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

Present value of in-force covered business (VIF)
The gross VIF is the discounted present value of expected future after-tax profits as determined on the IFRS basis, in respect of covered business in force at the valuation date. The net VIF is the gross VIF less the cost of required capital. No account is taken of dividend withholding tax. Prior year comparatives reflect the VIF calculated using the previous statutory basis.

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

Annexure C *continued*

Abbreviations and definitions

Definitions *continued*

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

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

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

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

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

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

Credit risk definitions

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

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

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

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

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

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

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

Annexure D

Significant group accounting policies

1 New IFRS standards and amendments

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

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

Improvements project amendments

- IFRS 3 – Business combinations (effective from annual periods beginning on or after 1 January 2019).
- IFRS 11 – Joint arrangements (effective from annual periods beginning on or after 1 January 2019).
- IAS 12 – Income taxes (effective from annual periods beginning on or after 1 January 2019).
- IAS 23 – Borrowing costs (effective from annual periods beginning on or after 1 January 2019).

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

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the Group.

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

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

From a lessee perspective, IFRS 16 makes distinction between an operating lease and a finance lease. At commencement of a lease, a lease liability (representing the present value of the lease payments over the lease term) will be recognised with a corresponding asset (representing the right to use the asset over the term of the lease). The income statement impact will be to replace the operating lease expense with a depreciation charge on the right-of-use asset and an interest expense on the lease liability.

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

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

The Group will be applying the modified retrospective approach with optional expedients. The lease liability for existing operating leases will be calculated at date of transition. A right-of-use asset will also be calculated. Any difference will be recognised in opening retained earnings. The anticipated value of this difference is expected to be between R20 million and R40 million (as a reduction in retained earnings). The anticipated value of the lease liability and right-of-use asset that will be recognised on 1 July 2019 is expected to be around R350 million.

1 New IFRS standards and amendments *continued*

Discussions of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the Group *continued*

IFRS 17 Insurance contracts

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

Developments have continued to focus on the main SA life license, where the most significant impacts are expected, with the understanding that these efforts will be leveraged by entities across the Group. The project is making progress with the SA long-term insurance business and the Group has initiated efforts to roll that out to African entities. These efforts are to a large extent coordinated by the Group, although some subsidiaries have also been driving their own implementation projects.

The pace of the project will accelerate over the next two years.

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

There are a number of areas of uncertainty in the standard (both in the interpretation and the application). We are on track to systematically reduce elements which drive significant uncertainty. In particular the ones with the most significant financial impact are:

- The calibration of our fair value approach and where that would be applicable;
- The impact of business combinations;
- The treatment of some investment contracts with accumulating smoothed bonus features;
- The treatment of trustees' tax;
- The calibration of the risk adjustment.

Indications at this stage are that we will see a larger strain on profits in the first year of business being written for the products which we have done the most analysis.

We anticipate that for a number of product ranges compulsory and discretionary margins may be released into equity. It is important to note that these product lines have different run-off patterns so one would need to analyse the effect over time. We have not performed this analysis given the extent to which there is still uncertainty on the five items highlighted above.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the day that control is lost. All material subsidiaries have financial years ending on 30 June and are consolidated to that date. Subsidiaries with financial year-ends other than 30 June are consolidated using audited or reviewed results (where necessary) for the relevant period ended 30 June. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the Group. Separate disclosure is made of non-controlling interests. All intra-group balances and unrealised gains and losses on transactions between group companies are eliminated. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Initial measurement

The acquisition method of accounting is used to account for the acquisition of subsidiaries/business combinations by the Group. The cost of a business combination is the fair value of the assets given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). This includes assets or liabilities recognised from contingent consideration arrangements. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 (2018: IAS 39) in profit and loss. Costs directly attributable to the business combination are expensed as incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest shareholders even if this results in the non-controlling interest shareholders having a deficit balance.

Disposals

If the Group loses control of a subsidiary company, the gain or loss on disposal is calculated as the difference between the fair value of the consideration received, and the carrying amount of the subsidiary's net assets and any non-controlling interest. Gains and losses on disposal of subsidiaries are included in the income statement as realised and fair value gains. Any gains or losses in other comprehensive income that relate to the subsidiary are reclassified to the income statement at the date of disposal.

Transactions with non-controlling interest shareholders

Transactions with non-controlling interest shareholders are treated as transactions with equity participants of the Group. Disposals to/acquisitions from non-controlling interest shareholders result in gains and losses for the Group that are recorded in equity. Any difference between any consideration paid/received and the relevant share acquired/sold of the carrying amount of the net assets of the subsidiary is recorded in equity.

Measurement – Momentum Metropolitan Holdings Ltd separate financial statements

Investment in subsidiary companies are stated at cost less any impairment losses. The carrying amount of these investments is assessed annually for impairment indicators. If an indicator exists, the investment is impaired to the higher of the investment's fair value less costs to sell and value in use.

2 Consolidation *continued*

2.2 Associates

Associates are all entities over which the Group has *significant influence* but not control. The Group's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the Group.

Profits and losses resulting from transactions between group companies are recognised in the Group's results to the extent of the Group's unrelated interests in the associates. Gains and losses arising on the dilution of investments in associates are recognised in the income statement.

Measurement

Investments in associate companies are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the Group's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the Group's share of the associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition profit or loss and movements in other comprehensive income are adjusted against the carrying amount of the investments. The equity method is discontinued from the date that the Group ceases to have *significant influence* over the associate. When *significant influence* is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Investments in collective investment schemes where the Group has *significant influence* are mandatorily 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 amount is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount.

Measurement – Momentum Metropolitan Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

2.3 Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Measurement

Interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent. The financial statements have been rounded to the nearest R million.

Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities, measured at fair value through income, are recognised as part of their fair value gain or loss.

Subsidiary undertakings

Foreign entities are entities of the Group that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in other comprehensive income. On disposal, such exchange differences are recognised in the income statement as part of net realised and fair value gains.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4 Intangible assets

4.1 Goodwill

Recognition and measurement

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

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

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

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

Impairment

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

4 Intangible assets *continued*

4.2 Value of in-force business acquired

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

Measurement

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

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

Impairment

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

4.3 Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the Group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the Group expects to recognise the related revenue, which is between three and 10 years.

Impairment

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

4.4 Deferred acquisition costs (DAC)

On long-term investment business

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

On non-life insurance business

Refer to the non-life insurance contracts section of the accounting policies.

Impairment

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

Annexure D continued

Significant group accounting policies

4 Intangible assets *continued*

4.5 Brand and broker network

Brand and broker network intangible assets have been recognised by the Group as part of a business combination. The assets are recognised when they are separately identifiable, it is probable that the future economic benefits will flow to the Group and the assets have a cost or value that can be measured reliably.

Measurement

The brand and broker networks are initially measured at fair value. As there is generally no active market for these intangibles, the fair value is determined with reference to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, on the basis of the best information available. In determining this amount, the Group considers the outcome of recent transactions for similar assets, for example, the Group applies multiples reflecting current market transactions to factors that drive the profitability of the asset (such as operating profit and VNB).

Subsequently, the brand and broker networks are amortised over their expected useful lives using the straight-line method. The brands are amortised over 20 years and the broker networks over five to 20 years.

Impairment

The brand and broker networks are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, being the value in use.

4.6 Computer software

Recognition and measurement

Acquired computer software

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

Internally developed computer software

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

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

Impairment

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

5 Owner-occupied properties

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

Measurement

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

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

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

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

Depreciation

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

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

Disposals

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

6 Investment properties

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

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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

Transfers to and from investment properties

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

Properties held under operating leases

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

Gains and losses

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

7 Financial assets

Classification

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

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

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

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

The Group reclassifies debt investments when its business model for managing those assets changes.

- **Debt instruments**
  There are three measurement categories into which debt instruments can be classified:
  - Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.
  - FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI.
  - FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured mandatorily at FVPL. The Group designates debt securities and funds on deposit and other money market instruments at FVPL upon initial recognition when it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities and recognising the gains and losses on them on different bases.
- **Equity instruments**
  The Group subsequently measures all equity investments at fair value. The Group's management has elected to present fair value gains and losses on equity investments in the income statement.

7 Financial assets *continued*

Recognition and measurement

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

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

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

Impairment of financial assets

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

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

The Group views financial assets at amortised cost to be low credit risk when there is a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

Impairment losses on financial assets at amortised cost are presented as net impairment losses within profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Impairment – Momentum Metropolitan Holdings Ltd separate financial statements

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

Derecognition of financial assets

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

7 Financial assets *continued*

Realised and unrealised gains and losses

Financial assets at fair value through income

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

Offsetting

Financial assets and liabilities were set off and the net balance reported in the statement of financial position where there was a legally enforceable right to set off, where it as 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 was the same, and where the financial asset and liability were denominated in the same currency.

Scrip lending

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

Accounting policies applied until 30 June 2018

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

Classification

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

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

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

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

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

  Financial assets were designated at fair value through income at inception if they were:
  - held to match insurance and investment contract liabilities that were linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  - was managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy; or
  - a financial instrument that included a significant embedded derivative that clearly require bifurcation.

- **Loans and receivables**
  Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market.

Annexure D continued

Significant group accounting policies

7 Financial assets *continued*

Recognition and measurement

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

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

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

8 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

Fair value hedges

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

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

Derivatives that do not qualify for hedge accounting

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

9 Cash and cash equivalents

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

10 Long-term and non-life insurance and investment contracts

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

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle:

- If the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

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

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these arrangements, only fee income, investment income and net realised and fair value gains are included in the Group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

Insurance contracts

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

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

For cell captive business, insurance policies are issued in third-party cell captive structures or contingency policies. The Group also accepts insurance and reinsurance inwards risks directly, eg where the promoter cell shares in the underwriting experience of selected cell arrangements. All items relating to these arrangements are included in the Group's income statement and statement of financial position, except for contract management fees.

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

10 Long-term and non-life insurance and investment contracts *continued*

Classification of contracts *continued*

Contracts with DPF

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

Long-term insurance contracts and investment contracts with DPF

Measurement

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

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

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

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, BSAs are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and Group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- Provision is made for the estimated cost of incurred but not yet reported (IBNR) claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported claims are disclosed in other payables.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.

10 Long-term and non-life insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Measurement *continued*

Compulsory and discretionary margins

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

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

- For certain books of business which are ring-fenced per historic merger or take-over arrangements, liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.
- An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and utilised if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the Group.
- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

10 Long-term and non-life insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Embedded derivatives

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

Liability adequacy test

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

Reinsurance contracts held

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

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

- The first consists of reinsurance liabilities which are payable to registered reinsurers, in terms of a reinsurance agreement and include premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.
- The second type consists of reinsurance contracts which the Group has with third-party cell owners. The agreements in place with these cell owners are such that the cell owner acts as reinsurer to the Group for the business which the cell brings to the Group. The risks and rewards of insurance policies relating to these cells are passed on to the cell owner, and the Group retains no insurance risk relating to these policies on a net basis. The Group therefore has an obligation to pay the net results relating to the insurance business in the cell to the cell owner as a result of these agreements. This obligation is deemed to be a reinsurance arrangement and is disclosed as part of insurance contract liabilities.
- The third type consists of a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provides upfront funding to a cell within the Group, with the cell then repaying this funding over an agreed term. The liability associated with this repayment is disclosed as part of reinsurance contract liabilities and is valued consistently with the DCF approach used for insurance contract liabilities.

10 Long-term and non-life insurance and investment contracts *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Reinsurance contracts held *continued*

Impairment of reinsurance assets

If there is *objective evidence* that a reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method as that adopted for financial assets at amortised cost.

Long-term insurance premiums

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

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

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

Reinsurance recoveries

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

Acquisition costs

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

Investment contracts

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

Measurement

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

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

10 Long-term and non-life insurance and investment contracts *continued*

Investment contracts *continued*

Measurement *continued*

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

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

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

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

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

Deferred revenue liability (DRL)

A DRL is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying amount of the DRL is recognised in revenue and falls within the scope of IFRS 15.

Deferred acquisition costs

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

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

Non-life insurance contracts

Premiums

Non-life insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

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

10 Long-term and non-life insurance and investment contracts *continued*

Non-life insurance contracts *continued*

Unearned premium provision

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

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out below:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for IBNR claims at year-end, using the percentages specified by class of business and development period as set out in the previous Short-term Insurance Act.

11 Financial liabilities

Recognition and measurement

The Group classifies its financial liabilities into the following categories:

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

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

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

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

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

  Derivatives held for trading are classified as mandatorily at fair value through income.

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

  – eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  – managed, with their performance being evaluated on a fair value basis; or
  – a financial instrument that includes a significant embedded derivative that clearly requires bifurcation.

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

11 Financial liabilities *continued*

Recognition and measurement *continued*

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

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

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

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

Financial liabilities, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below) and collective investment schemes liabilities (representing the units in collective investment schemes where the Group consolidates the collective investment schemes and is required to disclose the value of the units not held by the Group as liabilities) are managed, with their performance being evaluated on a fair value basis and designated at fair value through income. These financial liabilities are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Changes in the fair value of the financial liability that relates to changes in own credit risk is recognised in other comprehensive income if it does not create an accounting mismatch. Interest on the callable notes and carry positions are disclosed separately as finance costs using the effective interest rate method.

Carry positions

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

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

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

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

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

11 Financial liabilities *continued*

Recognition and measurement *continued*

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

  Convertible redeemable preference shares and convertible bonds

  Compound financial instruments issued by the Group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. At initial recognition, the fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The dividends on these preference shares are recognised in the income statement in finance costs.

  Other payables

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

  Derecognition of financial liabilities

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

12 Deferred income tax

Measurement

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

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

Deferred tax related to fair value remeasurement of post-employment benefit obligations, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

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

Offsetting

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

13 Current taxation

Measurement

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

Offsetting

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

Dividend withholding tax (DWT)

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

14 Indirect taxation

Indirect taxes include various other taxes paid to central and local governments, including value added tax (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

15 Leases: Accounting by lessee

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the Group are classified as finance leases.

Measurement

- **Asset**
  Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.

- **Liability**
  The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

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

Significant group accounting policies

16 Leases: Accounting by lessor

Operating leases

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

17 Contingent liabilities

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

18 Employee benefits

Post-retirement medical aid obligations

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

Termination benefits

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

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the Group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based compensation

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

18 Employee benefits *continued*

Share-based compensation *continued*

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

Compensation plans valued on the projected unit credit method

The Group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the Group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable EV of a subsidiary company, and that will be used to settle the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

19 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of insurance and investment products, non-current assets held as investments for the benefit of policyholders are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

Annexure D continued

Significant group accounting policies

20 Share capital

Share capital is classified as equity where the Group has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the Group are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included in equity.

Issue costs

Incremental external costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds. All other share issue costs are expensed.

Treasury shares

Treasury shares are equity share capital of the holding company held by subsidiaries, consolidated collective investment schemes and share trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from shareholder equity on consolidation until the shares are cancelled or reissued. If reissued, the difference between the carrying amount and the consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects, is included in share premium.

21 Dividends paid

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

22 Puttable non-controlling interests

Puttable non-controlling interests represent put options granted to non-controlling interests of subsidiaries, entitling the non-controlling interests to dispose of their interest in the subsidiaries to the Group at contracted dates.

Recognition and measurement

A financial liability at fair value through income is recognised, being the present value of the estimated purchase price value discounted from the expected option exercise date to the reporting date. In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings.

The estimated purchase price is reconsidered at each reporting date and any change in the value of the liability is recorded in net realised and fair value gains in the income statement. Interest in respect of this liability is calculated using the *effective interest rate method* and recorded within finance costs.

23 Income recognition

Income comprises the fair value of services, net of value added tax, after eliminating income from within the Group. Income is recognised as follows:

23.1 Fee income

IFRS 15 sets out the principles of the timing of revenue recognition. Revenue is either recognised at a point in time or over time. Revenue is recognised over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If none of the above criteria is met, revenue is recognised at a point in time.

23 Income recognition *continued*

23.1 Fee income *continued*

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the Group are recognised in the accounting period in which the services are rendered. Services are rendered over the expected duration of the contract, except for performance fees which are recognised at a point in time when the performance obligations are met. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered. Services are rendered over the expected duration of the contract.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered. Services are rendered over the expected duration of the contract.

Cell captive fee income includes management fees, which relates to the managing of the cell. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies and is recognised over the duration of the contract. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered. Scrip lending fees are recognised at a point in time. Policy administration services are rendered either at a point in time or over the duration of the contract depending on when the performance obligations are met.

23 Income recognition *continued*

23.2 Investment income

Interest income

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

Dividend income

Dividends received are recognised when the right to receive payment is established. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro rata number of shares, there is no change in economic interest of any investor and there is no economic benefit associated with the transaction.

Rental income

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

24 Expense recognition

24.1 Expenses

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

24.2 Finance costs

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

25 Segmental reporting

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

Annexure E

Valuation techniques

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

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

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

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

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

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

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to note 6.8 for details of the instruments split into the different levels.

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

Annexure E continued

Valuation techniques

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

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

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

Financial assets	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Securities at fair value through income				
Equity securities				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
	Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities				
Stock and loans to government and other public bodies				
Unlisted	DCF	Nominal interest rate	8.00% to 11.00% (2018: 8.00% to 11.31%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments				
Foreign listed	Published price quotations	Market input. Management applies judgement if an adjustment of quoted prices is required due to an inactive market.	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value

Annexure E continued

Valuation techniques

Information about fair value measurements using significant unobservable inputs (*level 3*) *continued*

Financial assets *continued*	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Debt securities continued				
Other debt instruments continued				
Unlisted	DCF	Nominal interest rate	8.26% to 10.69% (2018: 7.56% to 11.43%); 8.43% to 11.55% (2018: 6.90% to 15.12%)	The higher the nominal interest rate, the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Funds on deposit and other money market instruments	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unit-linked investments				
Collective investment schemes				
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
	Adjusted net asset value method	Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation

Information about fair value measurements using significant unobservable inputs (*level 3*) *continued*

Financial assets *continued*	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Other unit-linked investments continued				
Foreign unlisted or listed quoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Investments in associates at fair value through income	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value

Financial liabilities	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities at fair value through income				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	DCF	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted EV	Could vary significantly based on the risks associated with the investee	The higher the EV, the greater the fair value

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

Annexure F

Cash-settled arrangements valuation assumptions and directors' remuneration

Valuation assumptions relating to outstanding MMH LTIP units at 30 June:

2019	Units granted during the current year Retention units 15th tranche[1]	16th tranche[1]	17th tranche[1]	18th tranche[1]	19th tranche	15th tranche[1]
Award date	01-Oct-16	01-Apr-17	01-Oct-17	01-Apr-18	01-Oct-18	01-Oct-16
Vesting date	01-Oct-19	01-Apr-20	01-Oct-20	01-Apr-21	01-Oct-21	01-Oct-19
Outstanding units (thousands)	6 216	178	11 150	208	240	6 505
Valuation assumptions include:						
Outstanding tranche period in years	0.25	0.75	1.25	1.75	2.25	0.25
Take-up rate on units outstanding	94%	94%	88%	88%	82%	94%
Current vesting rate	100%	100%	100%	100%	100%	0%
Adjusted share price, adjusted for future dividends and past special distributions	R 18.97	R 18.97	R 18.97	R 18.97	R 18.97	R 18.97

2018	Retention units 17th tranche	18th tranche	Performance units 17th tranche	18th tranche	19th tranche
Award date	01-Oct-17	01-Apr-18	01-Oct-17	01-Apr-18	09-Apr-18
Vesting date	01-Oct-20	01-Apr-21	01-Oct-20	01-Apr-21	31-Oct-21
Outstanding units (thousands)	12 727	247	14 751	1 046	1 246
Valuation assumptions include:					
Outstanding tranche period in years	2.25	2.75	2.25	2.75	3.34
Take-up rate on units outstanding	82%	82%	82%	82%	100%
Current vesting rate	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 17.67	R 17.67	R 17.67	R 17.67	R 17.67

[1] This relates to dividend offers made during the year.

Vesting rate assumptions regarding performance units in the table above

As stated on page 112, the performance units in the MMH LTIP are subject to performance criteria.

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

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

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

Performance units					Deferred bonus units		
16th tranche[1]	17th tranche[1]	18th tranche[1]	19th tranche[1]	20th tranche	1st tranche	2nd tranche	3rd tranche
01-Apr-17	01-Oct-17	01-Apr-18	09-Apr-18	01-Oct-18	01-Oct-18	01-Oct-18	01-Oct-18
01-Apr-20	01-Oct-20	01-Apr-21	31-Oct-21	01-Oct-21	01-Oct-19	01-Oct-20	01-Oct-21
327	11 837	898	1 272	232	3 001	3 001	3 001
0.75	1.25	1.75	2.34	2.25	0.25	1.25	2.25
94%	88%	88%	82%	82%	94%	88%	82%
0%	0%	0%	100%	100%	100%	100%	100%
R 18.97	R 18.97	R 18.97	R 18.97	R 18.97	R 18.97	R 18.97	R 18.97

Cash-settled arrangements valuation assumptions and directors' remuneration

Valuation assumptions relating to outstanding MSPS units at 30 June:

2019	Units granted during the current year 25th tranche	26th tranche	27th tranche
Award date	01-Nov-18	01-Nov-18	01-Nov-18
Vesting date	01-Nov-21	01-Nov-22	01-Nov-23
Outstanding units (thousands)	228	228	228
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

2018	22nd tranche	23rd tranche	24th tranche
Award date	01-Nov-17	01-Nov-17	01-Nov-17
Vesting date	01-Nov-20	01-Nov-21	01-Nov-22
Outstanding units (thousands)	364	364	364
Valuation assumptions include:			
Outstanding tranche period in years	2.34	3.34	4.34
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

Valuation assumptions relating to outstanding MMH OP units at 30 June:

	Units granted during the current year		
	Retention units		Performance units
2019	1st tranche[1]	2nd tranche[1]	2nd tranche[1]
Award date	05-Mar-15	05-Mar-15	05-Mar-15
Vesting date	01-Oct-18	01-Oct-19	01-Oct-19
Outstanding units (thousands)	138	92	1 636
Valuation assumptions include:			
Outstanding tranche period in years	N/A	0.25	0.25
Take-up rate on units outstanding	100%	100%	0%
Current vesting rate	94%	94%	94%
Adjusted share price, adjusted for future dividends and past special distributions	R18.97	R18.97	R18.97

No units were granted in the prior year.

[1] This relates to dividend offers made during the year. In terms of the rules of the MMH OP, although the vesting date is 1 October 2018, the settlement will only be in October 2019 on final vesting date.

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

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

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

Valuation assumptions relating to outstanding MMH SAR units at 30 June:

	Units granted during year		
2019	**1st tranche**	**2nd tranche**	**3rd tranche**
Award date	**01-Oct-18**	**01-Oct-18**	**01-Oct-18**
Vesting date	**01-Oct-21**	**01-Oct-22**	**01-Oct-23**
Outstanding units (thousands)	**7 658**	**7 658**	**7 658**
Valuation assumptions include:			
Outstanding tranche period in years	**2.25**	**3.25**	**4.25**
Take-up rate on units outstanding	**100%**	**100%**	**100%**
Current vesting rate	**82%**	**76%**	**70%**
Adjusted share price, adjusted for future dividends and past special distributions	**R 18,97**	**R 18,97**	**R 18,97**
Strike Price	**R 16,80**	**R 16,80**	**R 16,80**
Risk Free Rate	**7%**	**7%**	**7%**
Volatility Rate	**40%**	**40%**	**40%**
Dividend Yield	**0%**	**0%**	**0%**

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

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

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

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

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

Tranches vested during the current or prior year

MMH LTIP: The eighth tranche was settled in October 2017 at R18.47 per share totalling R189 million.
MMH LTIP: The ninth tranche was settled in April 2018 at R22.15 per share totalling R1 million.
MMH LTIP: The tenth tranche was settled in September 2017 at R19.88 per share totalling R10 million.
MMH LTIP: The eleventh tranche was settled in October 2018 at R17.15 per share totalling R90.7 million.
MMH LTIP: The twelfth tranche was settled in April 2019 at R16.44 per share totalling R2.2 million.
MMH LTIP: The fourteenth tranche was settled in September 2018 at R17.00 per share totalling R1.8 million.
MMH LTIP: Ad hoc payments totalling R5.5 million (2018: R8.2 million).

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R122 million (2018: R120 million) for the Group and is disclosed under employee benefit expenses in note 23.

Annexure F continued

Cash-settled arrangements valuation assumptions and directors' remuneration

Directors' remuneration

The Group's executive directors are contracted as full-time, permanent employees, with the exception of the CEO who is currently on a fixed term contract. Notice periods range from one to three months' written notice. Bonus payments and the vesting of long-term incentives that are in place at the time of an individual's termination of service are subject to the rules of the relevant incentive scheme, subject to the discretion of the Remco based on recommendations by the CEO.

Non-executive directors, including the Chairman and Lead Independent Director, receive a fixed annual fee that is inclusive of all Board and Committee attendance, as well as all other services performed on behalf of the Group. The Group pays for all travelling and accommodation expenses in respect of Board meetings.

	Salary		Short-term incentive payments		Retention payments		Long-term incentive payments	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
HP Meyer[1]	**7 033**	2 600	**1 050**	–	**–**	–	**–**	–
J Marais[2]	**3 820**	1 235	**675**	–	**–**	–	**–**	–
R Ketola[3]	**3 447**	1 627	**1 925**	–	**–**	–	**–**	–
NAS Kruger[4]	**–**	3 981	**–**	–	**–**	3 500	**–**	10 616
M Vilakazi[5]	**–**	2 963	**–**	–	**–**	–	**–**	4 391
Executive directors	**14 300**	12 406	**3 650**	–	**–**	3 500	**–**	15 007

	Fees		Ad hoc fees		Total fees	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
BJ van der Ross[6]	**–**	630	**–**	–	**–**	630
F Jakoet	**994**	968	**–**	–	**994**	968
FJC Truter	**2 223**	2 154	**–**	–	**2 223**	2 154
PJ Moleketi	**808**	786	**–**	–	**808**	786
JJ Njeke	**2 197**	1 982	**–**	–	**2 197**	1 982
JC van Reenen	**952**	980	**–**	–	**952**	980
KC Shubane	**865**	786	**–**	–	**865**	786
L von Zeuner[7]	**1 447**	2 152	**–**	–	**1 447**	2 152
JD Krige	**791**	690	**–**	–	**791**	690
SA Muller[8]	**1 139**	1 697	**–**	45	**1 139**	1 742
V Nkonyeni	**766**	658	**–**	–	**766**	658
P Cooper	**1 136**	1 077	**–**	–	**1 136**	1 077
WM Krzychylkiewics[9]	**–**	–	**–**	–	**–**	–
SC Jurisich	**1 595**	1 523	**–**	–	**1 595**	1 523
L de Beer[10]	**292**	–	**–**	–	**292**	–
LM Chiume[10]	**366**	–	**–**	–	**366**	–
MS Moloko[10]	**280**	–	**–**	–	**280**	–
SL McPherson[10]	**248**	–	**–**	–	**248**	–
KG Legoabe-Kgomari[11]	**–**	–	**–**	–	**–**	–
Non-executive directors	**16 099**	16 083	**–**	45	**16 099**	16 128

Expense allowance		Medical aid contribution		Retirement fund contribution		Contractual payment		Total remuneration		Value of shares granted		Value of total units outstanding at year-end	
2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
–	–	**–**	–	**–**	–	**–**	–	**8 083**	2 600	**11 406**	27 500	**40 589**	22 017
–	–	**51**	16	**212**	83	**–**	7 500	**4 758**	8 834	**6 587**	6 000	**9 877**	4 785
–	–	**141**	73	**278**	129	**–**	–	**5 791**	1 829	**7 911**	5 558	**13 976**	10 795
–	1	**–**	206	**–**	356	**5 506**	9 292	**5 506**	27 952	**–**	–	**–**	–
–	–	**–**	58	**–**	520	**–**	–	**–**	7 932	**–**	–	**–**	–
–	1	**192**	353	**490**	1 088	**5 506**	16 792	**24 138**	49 147	**25 904**	39 058	**64 442**	37 597

1 Appointed February 2018. The Group CEO's contract has been extended until 31 October 2023.

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

3 Appointed as financial director in January 2018.

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

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

6 Resigned November 2017.

7 Resigned February 2019.

8 Retired November 2018.

9 Resigned October 2017.

10 Appointed March 2019.

11 Appointed June 2019.

Annexure F continued

Cash-settled arrangements valuation assumptions and directors' remuneration

Directors shareholding in Momentum Metropolitan Holdings Ltd

Listed shares	Direct Beneficial '000	Indirect Beneficial '000	Total 2019 '000	Total 2018 '000
Executive directors				
HP Meyer	248	390	638	340
J Marais	189	–	189	189
Non-executive directors				
FJC Truter	44	433	477	477
PJ Moleketi	–	112	112	112
JC van Reenen	–	144	144	144
KC Shubane	78	7	85	85
JD Krige	–	408	408	408
SA Muller[1]	–	–	–	50
P Cooper	292	150	442	442
SC Jurisich[2]	0	–	0	0
	851	1 644	2 495	2 247

[1] Retired November 2018.
[2] 169 shares held in Momentum Metropolitan Holdings Ltd in both the current and prior year.

Shareholding of directors who retired in F2019

Listed shares	Direct Beneficial '000	Indirect Beneficial '000	Total '000
SA Muller	50	–	50

Shareholding of directors who resigned in F2018

Listed shares	Direct Beneficial '000	Indirect Beneficial '000	Total '000
NAS Kruger	64	4 573	4 637
M Vilakazi	–	1 703	1 703
	64	6 276	6 340

Annexure G

Adoption of new standards

IFRS 9 Financial instruments

IFRS 9 Transitional adjustments Statement of financial position	**30.06.2018 as per IAS 39 Rm**	**IFRS 9 classi-fication Rm**	**IFRS 9 ECL adjustment Rm**	**01.07.2018 as per IFRS 9 Rm**
ASSETS				
Investments in associates and joint ventures	636	–	–	636
Financial assets *designated* at fair value through income	395 146	(395 146)	–	–
Financial assets at fair value through income – designated	–	95 416	–	95 416
Financial assets at fair value through income – mandatorily	–	299 730	–	299 730
Investments in associates *designated* at fair value through income	11 383	(11 383)	–	–
Investments in associates at fair value through income – mandatorily	–	11 383	–	11 383
Derivative financial assets	2 910	–	–	2 910
Held-to-maturity financial assets	437	(437)	–	–
Loans and receivables	5 629	(5 629)	–	–
Financial assets at amortised cost	–	6 066	(46)	6 020
Cash and cash equivalents	25 812	–	–	25 812
Other assets	34 412	–	–	34 412
Total assets	476 365	–	(46)	476 319
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	22 328	–	(40)	22 288
Non-controlling interests	462	–	–	462
Total equity	22 790	–	(40)	22 750
Financial liabilities *designated* at fair value through income	38 217	(38 217)	–	–
Financial liabilities at fair value through income – designated	–	37 090	–	37 090
Financial liabilities at fair value through income – mandatorily	–	110	–	110
Financial liabilities at amortised cost[1]	2 420	1 017	–	3 437
Derivative financial liabilities	2 255	–	–	2 255
Other liabilities[2]	410 683	–	(6)	410 677
Total liabilities	453 575	–	(6)	453 569
Total equity and liabilities	476 365	–	(46)	476 319

1 Balance was not reclassified in interim results as the management of the liability was subsequently clarified.
2 The liability ECL adjustment relates to tax on the impairment provision increase.

The Group has implemented IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 July 2018 has been adjusted for any differences in the carrying amounts of financial instruments.

The standard introduces an approach to the classification of financial instruments that is based on contractual cash flows characteristics and models through which financial instruments are managed (business model). The standard amends the previous requirements in three main areas: (a) classification and measurement of financial assets, (b) impairment of financial assets, mainly by introducing a forward-looking expected credit loss (ECL) impairment model and (c) hedge accounting including removing some of the restrictions on applying hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement.

Annexure G *continued*

Adoption of new standards

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost
- Fair value through other comprehensive income
- Fair value through income

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

No significant changes were introduced for the classification and measurement of financial liabilities, except for financial liabilities that are designated at fair value where entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The standard has introduced a new ECL impairment model that will require more timely recognition of ECLs than under IAS 39. An impairment loss must now be recognised prior to a loss event occurring. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The Group has not applied hedge accounting to the current or prior year.

Impact on adoption of IFRS 9

Prior to the implementation of IFRS 9, the Group designated a significant majority of its financial assets at fair value through income in terms of IAS 39. The application of the classification criteria resulted in the majority of the financial assets being classified mandatorily at fair value through income. In the life companies certain policyholder assets were designated at fair value through income due to accounting mismatch. All equity securities remain at fair value through income and assets previously disclosed as held-to-maturity will continue to be carried at amortised cost.

With majority of the Group's financial assets measurement remaining at fair value through income these assets are not subjected to the new impairment model. The significant impacts from changes in the measurement basis of impairment provisions are limited to the Group's assets that were previously classified as held-to-maturity and loans and receivables which are now classified and carried at amortised cost. The impact of applying the ECL model resulted in a decrease in equity of R40 million on 1 July 2018 which primarily relates to loans and receivables.

For the Group's financial liabilities, with the adoption of IFRS 9, cumulative redeemable preference shares issued by MMSI to FirstRand Bank Ltd were reclassified from designated at fair value through income to amortised cost on 1 July 2018. Management reassessed that this liability was not held for trading, eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring this liability or recognising the gains and losses on a different basis or managed on a fair value basis. For the rest of the Group's financial liabilities that remain designated at fair value through income, there were no significant changes in its own credit risk to recognise in other comprehensive income.

The application of IFRS 9 impairment methodology had an insignificant impact on the Group's equity accounted associates and joint ventures.

All insurance and reinsurance receivables are recognised in terms of IFRS 4 and are therefore outside the scope of IFRS 9.

The effects of the adoption of IFRS 9 on the statement of financial position as at 1 July 2018 are shown in the table on the previous page.

IFRS 15 Revenue from contracts with customers

IFRS 15 is effective from periods beginning on or after 1 January 2018. The Group has implemented IFRS 15 on 1 July 2018, retrospectively without restating comparative figures.

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The Group has assessed the impact of the adoption of IFRS 15 to determine the impact on the opening balance and concluded that there was no significant impact for the Group. The opening retained earnings as at 1 July 2018 has therefore not been adjusted for any change in revenue recognition.

Annexure H

Disposal groups held for sale

Assets and liabilities held for sale At 30 June 2019	**2019** **Rm**	**2018** **Rm**
ASSETS		
Property and equipment	**6**	–
Financial assets at fair value through income	**581**	–
Reinsurance contract assets (refer to note 7)	**21**	–
Total assets	**608**	–
LIABILITIES		
Insurance contract liabilities		
– Long-term insurance contracts (refer to note 8.1.1)	**136**	–
Investment contracts		
– with DPF (refer to note 9.1)	**173**	–
– designated at fair value through income (refer to note 9.2.1)	**224**	–
Other payables	**1**	–
Total liabilities	**534**	–

As part of our plan to exit a number of African countries, we have classified four of these African entities (which form part of the Momentum Metropolitan Africa segment), which we plan on exiting in the next 12 months, as held for sale.

The Group's interest in the assets and liabilities of these countries has been classified as held for sale in the statement of financial position at 30 June 2019. This judgement was done based on the facts and circumstances which existed at that date when a formal assessment was made of whether the countries should be classified as held for sale. The Group is satisfied that it meets all the criteria required in order to classify these countries as held for sale. The sales will take effect via cash sales and is expected to occur once regulatory approval is given.

In order to recognise the entities as held for sale, the respective entities were written down to the lower of fair value less costs to sell and the Group's share of the net asset value of the entity. As a result, an impairment loss of R87 million (2018: nil) has been recognised which has been included as part of depreciation, amortisation and impairment expenses in the income statement.

Reconciliation of impairment charge (refer to note 22)		
Included as part of impairment of financial assets at amortised cost	**57**	–
Included as part of impairment of non-current assets held for sale	**30**	–
	87	–

Annexure I

Additional information

Analysis of assets managed and/or administered[1]	2019 Rm	2018 Rm
Managed and/or administered by Investments		
Financial assets	423 774	418 540
Momentum Manager of Managers	70 885	88 943
Momentum Investment Consultants	6 226	5 850
Momentum Collective Investments	85 344	82 157
Metropolitan Collective Investments	–	120
Momentum Asset Management	169 265	152 247
Momentum Global Investments	57 250	60 476
Momentum Alternative Investments	7 152	6 278
Momentum Securities	27 652	22 469
Properties – Eris Property Group	23 030	21 859
On-balance sheet	8 242	8 346
Off-balance sheet	14 788	13 513
Momentum Wealth linked product assets under administration	161 036	160 839
On-balance sheet	104 983	104 327
Off-balance sheet	56 053	56 512
Managed internally or by other managers within Momentum Metropolitan (on-balance sheet)	82 952	71 097
Managed by external managers (on-balance sheet)	16 794	16 543
Properties managed internally or by other managers within Momentum Metropolitan or externally	4 682	4 268
Momentum Corporate – cell captives on-balance sheet	18 013	16 575
Total assets managed and/or administered	730 281	709 721
Managed and/or administered by Investments		
On-balance sheet	230 229	231 035
Off-balance sheet	193 545	187 505
	423 774	418 540

1 Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.

Net funds received from clients[1] **12 mths to 30.06.2019**	**Gross single inflows Rm**	**Gross recurring inflows Rm**	**Gross inflow Rm**	**Gross outflow Rm**	**Net inflow/ (outflow) Rm**
Momentum Life	**418**	**8 795**	**9 213**	**(9 725)**	**(512)**
Momentum Investments	**20 505**	**534**	**21 039**	**(26 759)**	**(5 720)**
Metropolitan Retail	**1 121**	**5 931**	**7 052**	**(5 804)**	**1 248**
Momentum Corporate	**8 390**	**12 601**	**20 991**	**(15 763)**	**5 228**
Non-life Insurance	**2 084**	**8 081**	**10 165**	**(4 893)**	**5 272**
Momentum Metropolitan Africa	**553**	**4 139**	**4 692**	**(2 802)**	**1 890**
Long-term insurance business fund flows	**33 071**	**40 081**	**73 152**	**(65 746)**	**7 406**
Off-balance sheet fund flows					
Managed and/or administered by Investments			**69 711**	**(74 739)**	**(5 028)**
Properties – Eris Property Group			**3 570**	**(2 295)**	**1 275**
Momentum Wealth linked product assets under administration			**6 589**	**(8 632)**	**(2 043)**
Total net funds received from clients			**153 022**	**(151 412)**	**1 610**
Restated **12 mths to 30.06.2018[2]**					
Momentum Life	351	8 587	8 938	(9 494)	(556)
Momentum Investments	20 491	403	20 894	(24 337)	(3 443)
Metropolitan Retail	1 304	6 064	7 368	(5 660)	1 708
Momentum Corporate	3 656	11 588	15 244	(16 329)	(1 085)
Non-life Insurance	607	8 002	8 609	(4 915)	3 694
Momentum Metropolitan Africa	500	3 751	4 251	(2 686)	1 565
Long-term insurance business fund flows	26 909	38 395	65 304	(63 421)	1 883
Off-balance sheet fund flows					
Managed and/or administered by Investments			70 861	(81 246)	(10 385)
Properties – Eris Property Group			1 819	(835)	984
Momentum Wealth linked product assets under administration			7 545	(9 280)	(1 735)
Total net funds received from clients			145 529	(154 782)	(9 253)

1 Assets managed and/or administered, other than CIS assets, are included where an entity earns a fee on the assets. The total CIS assets are included in Momentum Collective Investments only as this is where the funds are housed. Non-financial assets (except properties) have been excluded.
2 The table has been restated based on a new operating model adopted by the Group.

Annexure I *continued*

Additional information

Analysis of assets backing shareholder excess	2019 Rm	2019 %	2018 Rm	2018 %
Equity securities	**356**	**1.4**	411	1.8
Preference shares	**1 223**	**5.3**	1 456	6.5
Collective investment schemes	**872**	**3.8**	367	1.6
Debt securities	**6 892**	**29.9**	6 833	30.6
Properties	**3 854**	**16.7**	3 479	15.6
Owner-occupied properties	**3 146**	**13.7**	2 426	10.9
Investment properties	**708**	**3.1**	1 053	4.7
Cash and cash equivalents and funds on deposit	**7 882**	**34.2**	5 927	26.5
Intangible assets	**5 977**	**26.0**	6 653	29.8
Other net assets	**909**	**3.9**	2 122	9.5
	27 965	**121.5**	27 248	122.0
Redeemable preference shares	**(254)**	**(1.1)**	(254)	(1.1)
Subordinated redeemable debt	**(4 431)**	**(19.2)**	(4 374)	(19.6)
Treasury shares held on behalf of contract holders	**(260)**	**(1.1)**	(292)	(1.3)
Shareholder excess per reporting basis	**23 020**	**100.0**	22 328	100.0

Number of employees	2019	2018
Indoor staff	**9 566**	9 350
SA	**8 275**	8 099
International	**1 291**	1 251
Field staff	**6 208**	7 585
Momentum Life and Investments	**1 052**	1 038
Metropolitan Retail	**3 561**	4 535
International	**1 595**	2 012
Total	**15 774**	16 935

Shareholder profile

Shareholder	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors	9	0.1	2
Kagiso Tiso Holdings (Pty) Ltd	2	7.6	114
RMI Holdings Ltd	1	26.8	401
Government Employees Pension Fund	5	8.5	128
Public			
Private investors	16 772	3.1	46
Pension funds	172	4.6	69
Collective investment schemes and mutual funds	1 286	47.2	707
Banks and insurance companies	124	2.1	32
Total	18 371	100.0	1 499

An estimated 365 million shares (2018: 399 million shares) representing 24.4% (2018: 25.6%) of total shares are held by foreign investors.

Size of shareholding	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 – 5 000	15 893	86.6	12	0.8
5 001 – 10 000	842	4.6	6	0.4
10 001 – 50 000	869	4.7	19	1.3
50 001 – 100 000	228	1.2	16	1.1
100 001 – 1 000 000	407	2.2	138	9.2
1 000 001 and more	132	0.7	1 308	87.2
Total	18 371	100.0	1 499	100.0

Beneficial owners	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	26.8
Government Employees Pension Fund	128	8.5
Off The Shelf Investment 108 (Pty) Ltd	81	5.4
Total	610	40.7

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2019, are disclosed.

Stock exchange performance

	2019	2018
12 months		
Value of listed shares traded (rand million)	**12 461**	17 396
Volume of listed shares traded (million)	**716**	853
Shares traded (% of average listed shares in issue)	**49**	56
Trade prices		
Highest (cents per share)	**1 987**	2 424
Lowest (cents per share)	**1 500**	1 673
Last sale of year (cents per share)	**1 897**	1 767
Percentage (%) change during year	**7**	(13)
Percentage (%) change – life insurance sector (J857)	**8**	10
Percentage (%) change – top 40 index (J200)	**1**	13
30 June		
Price/diluted normalised headline earnings (segmental) ratio[1]	**9.3**	14.0
Dividend yield % (dividend on listed shares)	**3.7**	–
Dividend yield % – top 40 index (J200)	**3.1**	2.8
Total shares issued (million)		
Ordinary shares listed on JSE	**1 498**	1 529
Treasury shares held by subsidiary for shareholders	**(27)**	–
Treasury shares held on behalf of contract holders	**(14)**	(17)
Basic number of shares in issue	**1 457**	1 512
Treasury shares held on behalf of contract holders	**14**	17
Convertible redeemable preference shares	**28**	28
Diluted number of shares in issue[2]	**1 499**	1 557
Market capitalisation at end (Rbn)[3]	**28**	28

[1] Comparatives have been restated for diluted normalised headline earnings.
[2] The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.
[3] The market capitalisation is calculated on the fully diluted number of shares in issue.

Shareholder diary

Financial year-end	30 June 2019	
Reporting	Interim results	8 March 2019
	Trading update for the 9 months to March 2019	21 May 2019
	Announcement of year-end results	4 September 2019
	Trading update for the 3 months to September 2019	21 November 2019
	Annual general meeting	26 November 2019
	Annual report published	27 September 2019

Administration

MOMENTUM METROPOLITAN HOLDINGS LTD

Group company secretary and registered office

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Investor relations

investorrelations@momentummetropolitan.co.za

Company registration

2000/031756/06

American Depository Receipt

CUSIP: 592144109
Depository: Bank of New York

Internet address

http://www.momentummetropolitan.co.za

Auditors

PricewaterhouseCoopers Inc.

Share codes

JSE – MTM
NSX – MMT

Sponsor – South Africa

Merrill Lynch South Africa (Pty) Ltd

Transfer secretaries – South Africa

Link Market Services SA (Pty) Ltd
13th Floor
19 Ameshoff Street
Braamfontein
2001
PO Box 4844, Johannesburg 2000

Sponsor – Namibia

Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue
Burg Street Entrance
Windhoek, Namibia
PO Box 2301, Windhoek, Namibia

Debt sponsor

Rand Merchant Bank

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